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REPORT OF THE
SOUTHERN MARYLAND AGRICULTURAL COMMISSION
TOBACCO AND OTHER CROPS



February 1985

Prepared by:

The Department of Agriculture
The Department of Economic and Community Development
The Department of Legislative Reference
The Tri-County Council for Southern Maryland

Annapolis & Charlotte Hall, Maryland

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SOUTHERN MARYLAND AGRICULTURAL COMMISSION
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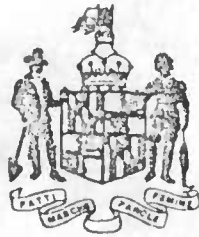


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SENATE OF MARYLAND

ANNAPOLIS, MARYLAND 21401-1991

BERNIE FOWLER
DISTRICT 29
ANNE ARUNDEL COUNTY
CALVERT COUNTY
ST. MARY'S COUNTY

April 19, 1984

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CAPITAL PROJECTS SUBCOMMITTEE
JOINT COMMITTEE ON LEGISLATIVE ETHICS

The Honorable Melvin A. Steinberg
President of the Senate
State House
Annapolis, Maryland 21401

Dear President Steinberg: *Mickey*

Thank you for your very kind letter summarizing the recent Session of the General Assembly. Your comments were quite accurate. I want to take this means and opportunity to express my personal appreciation for your help during a difficult but very productive Session. Your leadership contributed in large measure to that success.

You will recall a very brief discussion I had with you regarding the serious plight of the tobacco farmers in Southern Maryland. Tobacco sales in Southern Maryland amount to approximately \$60 million annually during a normal year. Drought conditions, foreign imports and the continued reduction in sales of tobacco products and other conditions have created a very bad situation in the agricultural community. Sales will probably not gross more than \$30 million for this year.

Tobacco has been a mainstay in the Southern Maryland economy for centuries and has served as a productive livelihood for many generations. I believe we have reached a very serious crossroads regarding the future of tobacco in Southern Maryland. The outlook is certainly not too promising.

It would be extremely helpful if you could use the force of your good office in cooperation with the Speaker of the House to develop a Southern Maryland Agricultural Commission that would be charged with the responsibility of analyzing the current situation to determine the future of tobacco farming in Southern Maryland as a viable investment and explore alternative means of fulfilling the current void that exists in our economy because of the conditions mentioned earlier.

A commission should consist of representatives from the five counties raising tobacco, namely, Anne Arundel, Calvert, Charles, Prince George's and St. Mary's. Members should be selected from organizations such as the Farm Bureau, Soil Conservation District, State Department of Agriculture, Department of Economic and Community Development, and others that may be able to contribute to the success of such a group.

The Honorable Melvin A. Steinberg
April 19, 1984

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Time is of the essence because of the uncertainty that is prevailing in the farm community.

I will be more than happy to discuss any and all conditions that may assist you in developing such a commission as expediently as possible.

The farm community joins me in expressing our gratitude for any help you may provide at your earliest convenience.

Sincerely,


Bernie Fowler

BF:ww



MARYLAND GENERAL ASSEMBLY
STATE HOUSE

ANNAPOLIS, MARYLAND 21401-1991

June 15, 1984

To the Appointees to the Southern Maryland Agricultural Commission

Lady and Gentlemen:

We are pleased to announce your appointment by us to the Southern Maryland Agricultural Commission. The membership of the Commission is:

Senator C. Bernie Fowler, Chairman
Delegate Ernest J. Bell, II, Vice Chairman

Senator James Clark, Jr.
Senator Thomas V. "Mike" Miller, Jr.
Senator James C. Simpson

Delegate Ethel A. Murray
Delegate John K. Parlett
Delegate Thomas A. Rymer

Richard Baker - Maryland Department of Agriculture
James P. Bowling - Warehousemen/Auction Barns
Roland Darcey - Maryland Farm Bureau
Robert R. Denny - Tobacco Buyers
Dr. Claude G. McKee - University of Maryland Tobacco Research Farm
John A. Prouty - Maryland Tobacco Authority
Edward Swecker - Maryland Cooperative Extension Service
Henry Walke - Maryland Tobacco Growers; Association
Tobacco Growers (local): R. Johns Dixon - St. Mary's County
Albert Entzian - Prince George's County
Oscar Grimes - Anne Arundel County
Leonard Rice - Charles County
Allen R. Swann - Calvert County

We are also considering requesting the Maryland Department of Economic and Community Development and the Tobacco Institute, which is a trade association of manufacturers, to each appoint a member to serve on the Commission.

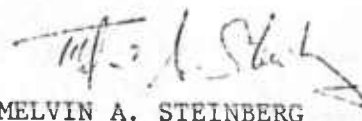
Staffing for the Commission will be provided by Lawrence B. Chambers, Esq., Legislative Analyst and Dr. Robert H. Forste, Deputy Chief, Research Division, Department of Legislative Reference.

The Commission has been appointed as a result of joint legislative and executive concern and initiative regarding the serious condition of the Tobacco Industry in Southern Maryland. As a result of last year's drought condition, increased foreign competition, and the continued reduction in the sale of tobacco products in this country, sales of tobacco grown in Southern Maryland have dropped dramatically, and the future for this long standing agricultural commodity as a productive livelihood for tobacco growers in the State is not promising. The purpose of the Commission is to begin analyzing the current state of the tobacco growing industry in Southern Maryland in order to determine its future as a viable investment and to explore alternative means to overcome the economic decline in that portion of the State that has resulted from the loss of tobacco sales.

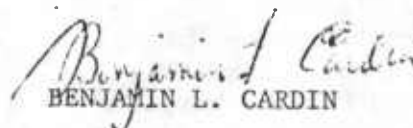
After Senator Fowler, Chairman of the Committee, consults with staff, an organizational meeting with an appropriate agenda and materials will be arranged, and you will be notified accordingly.

We fully understand that the work of the Commission will be difficult in light of the fact that tobacco growing has been a mainstay in Southern Maryland for almost as long as the first settlements of the State were established in the mid-17th century. However, because we feel that maintenance and growth of the State's economy is important to all regions of the State, not just the commercial and industrial areas, we hope that the Commission will meet the challenge it has been given and develop realistic proposals that can be implemented in the near future to bring about a change in the long term for the economic improvement of Southern Maryland.

Sincerely,



MELVIN A. STEINBERG



BENJAMIN L. CARDIN

MAS:BLC:b

cc: F. Carvel Payne, Director
Department of Legislative Reference
Lawrence B. Chambers
Robert H. Forste

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EXECUTIVE SUMMARY: FINDINGS AND RECOMMENDATIONS

1. Finding:

The demand for Maryland tobacco is dependent, among other factors, upon the production of a quality leaf; a leaf that is unique in its characteristics and distinct from burley and all other tobaccos.

a. Recommendations:

- (1) The University of Maryland through its Tobacco Research Farm should continue the development of improved varieties of Maryland tobacco that display traditional Maryland tobacco characteristics, while at the same time incorporate disease resistance and good growth characteristics.
- (2) Maryland farmers should be encouraged to adopt improved tobacco varieties, uniform grading practices, and attractively display the product.

2. Finding:

The development of alternative enterprises was examined as a means of providing additional income to Southern Maryland farmers. While tobacco will remain a major cash crop for many farmers in the future, diversification into alternative crop and livestock production can provide other sources of income and should be viewed as a complement to tobacco farming.

a. Recommendation:

- (1) A task force be established to provide technical information to Maryland farmers seeking to introduce alternative crops/livestock into their farming operations. Members of this task force should include extension specialists from the University of Maryland and local county extension agents.

3. Finding:

Activities to market Maryland tobacco have been limited. To stabilize the present market and develop new markets, emphasis must be placed on a directed and continuing marketing program, both for the domestic and foreign markets.

a. Recommendations:

- (1) Executives and buyers of both domestic and foreign tobacco companies should be invited to meet with Maryland farmers and State officials on a regular basis to discuss their needs and market expectations with respect to Maryland tobacco.
- (2) A tobacco trade team be established to visit the foreign and domestic companies to stimulate both traditional markets and establish new markets.
- (3) To implement (2), the Governor is requested to appropriate \$50,000 to initiate a marketing program for Maryland tobacco. Future monies for a continuing marketing program would be derived from both private and public sources.

4. Finding:

Additional taxes on cigarettes would have an adverse effect on the consumption of tobacco and diminish the demand for Maryland tobacco. If Maryland imposes an additional tax on cigarettes/tobacco products to the extent of the reduction in Federal taxes, and neighboring jurisdictions do not, illicit trade will be encouraged.

a. Recommendation:

When the Federal government repeals recently imposed cigarette taxes in 1985, the State should not levy a cigarette tax to the extent of that reduction.

INTRODUCTION

Commission Background and Charge

The 350th anniversary of the founding and settlement of the State of Maryland has stirred reflections on the importance of tobacco in the evolution of our culture and overall economic development. Historically, tobacco served as currency, was bartered and used as collateral for loans. Farmers that grew tobacco also provided many other family food staples. Over the years, while the agricultural sector prospered, however, specialization and the encroachment of urban and suburban development changed the nature of the industry.

Tobacco is now principally grown in five counties of Southern Maryland: Anne Arundel, Calvert, Charles, Prince George's and St. Mary's. It is the region's leading cash crop, accounting for an average of \$43 million in farm receipts over the last six years (1979-1984.) Tobacco ranks fifth in Maryland's farm commodity cash receipts, after broilers, milk, corn (grain) and soybeans.

The Southern Maryland Agricultural Commission (SMAC) was appointed by the Maryland General Assembly during the 1984 legislative study interim as a result of the losses experienced by farmers in the region and the rapidly changing economic and social conditions with which they must contend. For example, tobacco sales in Southern Maryland grossed almost \$60 million in 1982. In 1984, estimated gross sales fell to about \$30 million. This was the second consecutive year of poor market performance and sales, and affected both the farmers and the economy of Southern Maryland--with

spillover effects on the overall economic well-being of our State. Various factors contributed to the situation, including drought conditions, foreign imports, and a general continued reduction in sales of tobacco products. The quality of our Maryland crop was also a factor.

The Southern Maryland Agricultural Commission, therefore, was charged with the responsibility of (a) analyzing current and future conditions in the region affecting the viability of tobacco farming, and (b) exploring marketing and crop production alternatives for its farmers.

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Edited by
Robert H. Forste, Ph.D.

Synopsis of Hearings

The Commission held four hearings/technical sessions during the interim at facilities provided by the Southern Maryland Electric Cooperative Association in Hughesville, Maryland. Additional meetings of the study groups were held in Hughesville and Annapolis.

From the outset, it was apparent that Southern Maryland tobacco is considered a unique product by most buyers and manufacturers, including the traditional export and domestic cigarette markets. These outlets have provided a strong basic demand with a slight downward trend over the last few years.

Conversely, some buyers and manufacturers have frequently viewed Maryland tobacco as a close burley tobacco substitute. This market segment has exhibited wide fluctuations for Maryland tobacco, since the demand function is subject to the availability (production and stocks,) quality, and the price of burley tobacco. Consequently, the demand for and the average price of Maryland tobacco has been influenced by the available burley supplies. For example, plentiful supplies of burley tobacco in 1982 and 1983, following short crops during the two preceding years, reduced both the demand for Maryland tobacco and average prices. The quality of the 1983 Maryland crop was viewed as "poor" during the 1984 spring auctions, and also contributed to lower prices. The overall slight downward trend in the demand for tobacco and tobacco products is also considered a factor leading to lower prices.

The volatile elements induced by the burley segment of the market and the consequent production, marketing and income problems faced by our Southern Maryland farmers, therefore, led the Commission to formulate and address three major areas of study and action at its first meeting:

(1) the potential for crop and livestock diversification by Southern Maryland farmers, to reduce their dependence on tobacco;

(2) examine the United States market for Maryland tobacco through communication and dialogue with domestic buyers, with respect to (a) identifying market/marketing problems; (b) determining quality requirements; and (c) forecasting future trends; and

(3) explore the traditional and potential foreign markets for Maryland tobacco, and the potential for a State export program/initiative.

There were three study groups formed for these purposes, and the results of their work and the considerations the Commission gave to other aspects of supportive actions are described in the next section of this report.

COMMISSION FINDINGS AND RECOMMENDATIONS

Potential Crop and Livestock Diversification

A tobacco farmer in Southern Maryland has four basic choices to make as each new growing season arrives: (1) plant and grow tobacco, estimating the potential conditions for the best market and financial advantages; (2) plant and grow tobacco in conjunction with crops and/or livestock compatible with his farm and growing conditions (e.g., soils, market access and facilities, irrigation availability); (3) discontinue tobacco production and begin/continue/expand alternative farming enterprises; and (4) discontinue farming and examine the opportunities for alternative uses of his land (e.g., development).

The study group on crop and livestock diversification reviewed the position of tobacco in the economy of Southern Maryland agriculture with respect to these four alternatives. The group was charged with providing tobacco growers and all Southern Maryland farmers with technical information and data to aid them in their immediate and projected marketing and production decisions.

Tobacco production is labor intensive and expensive (see Table 1 for an example). In addition, as with all crops, weather and rainfall during any given season play major roles (particularly with respect to leaf quality and disease susceptibility in tobacco culture). Farmers who plant tobacco follow a year-long ritual starting with seedbed preparation, seeding, transplanting to the field, cultivation, (often) irrigation, fertilization, pest and disease control; harvesting; curing; stripping; packing and ultimate sale. Their success (or lack of it) is a function, therefore, of many variables--not all of which are subject to control.

Table 1.--A representative production budget for a 50-acre specialized tobacco farm
in Southern Maryland

COSTS:

	<u>Total</u> \$	<u>Average</u> \$
<u>Fixed and Investment Costs</u>		
Investment:		
Land (50 acres x \$2,880)	144,000	144,000
Buildings (50 acres x \$4,050) <u>a/</u>	202,500	101,250
Machinery (50 acres x \$1,931) <u>a/</u>	96,550	48,275
Total	443,050	293,525
Per Acre	8,861	5,871
<u>Depreciation Schedule</u> <u>b/</u>		
Buildings (\$202,500/20 yrs.)	<u>Per Year</u> \$ 10,125	
Machinery (\$96,550/8 yrs.)	12,069	
Total annual cost	\$ 22,194	
Per Acre	\$ 444	
<u>Repairs</u>		
	<u>Total Annual Cost</u>	<u>Per Acre</u>
Buildings (@ 1%)	\$ 2,025	\$ 41
Machinery (@ 5%)	4,828	97
<u>Taxes</u>		
Land (@ \$6.25/acre)	313	6
Buildings (\$101,250 @ \$3/100)	3,038	61
<u>Insurance</u>		
Buildings (\$202,500 @ 1%)	2,025	41
Machinery (\$48,275 @ 1%)	483	10
<u>Miscellaneous</u> (e.g., interest)	<u>2,400</u>	<u>48</u>
Total Fixed Costs	\$37,306	\$ 748*

*Includes depreciation.

Table 1. (continued)

<u>Variable Costs</u>	<u>Total Annual Cost</u>	<u>Per Acre</u>
	\$	\$
Plant bed expenses	1,350	27
Herbicides	750	15
Fertilizer	4,850	97
Cover crop (rye)	540	11
Insecticides and transplant water	700	14
Tobacco stick replacements	4,250	85
Fuel and oil	3,352	67
Irrigation fuel (if used)	1,328	27
Hired labor: <u>c/</u>		
Transplanting	3,000	60
Stripping	9,000	180
Harvesting	15,000	300
Selling Costs	<u>6,000</u>	<u>120</u>
Total Variable Costs	50,120	1,003
Total Fixed & Variable Costs	87,426	1,751
<u>Investment & Management Costs</u>		
Interest on average investment (\$8,861/acre x 8% x 50/2)	17,722	354
Operator's Labor & Management (Opportunity Cost/Return)	<u>15,612</u>	<u>312</u>
Totals	120,760	2,417

AVERAGE ANNUAL YIELD: 75,000 lbs.		
UNIT COST:		
(\$120,760 / 75,000 lbs.) = \$1.61/lb.		

REVENUES & NET RETURNS:

Tobacco Produced - 1,500 lbs/acre; 50 acres = 75,000 lbs./year

Assume average prices of three recent years (see Table 5):

- (1) Case A - 1981: \$1.75/lb. x 75,000 lbs. = \$ 131,250
Unit costs = \$1.61/lb. x 75,000 lbs. = 120,760
Net Return = \$ 10,490
- (2) Case B - 1982: \$1.53/lb. x 75,000 lbs. = \$ 114,750
Unit costs = \$1.61/lb. x 75,000 lbs. = 120,760
Net Loss = (\$ 6,010)

Table 1. (continued)

(3) Case C - 1983:	\$1.05/lb. x 75,000 lbs. = \$	78,750
Unit costs =	\$1.61/lb. x 75,000 lbs. =	<u>120,760</u>
	Net Loss =	(\$ 42,010)

A break-even price per pound for an operation of this size (assuming the cost structure described), therefore, would be \$1.61.

a/ Average investment on buildings and machinery during depreciation period assumed to be one-half of total investment.

b/ Salvage value assumed to be 10 percent (or less) and therefore not deducted.

c/ Labor budget assumes that 25% of labor is unpaid family labor.

- Notes: (1) The basic data used in calculating costs and production were provided by Prof. George Stevens of the Department of Agricultural & Resources Economics, University of Maryland.
- (2) The data were refined, corrected and consolidated in the format above, with net return assumptions and estimates by Robert H. Forste. Data were rounded resulting in slight difference in total and per-unit estimates.

About 24,000 acres of tobacco are planted in Southern Maryland annually. Some people plant a few sets in the garden while others cultivate over 100 acres. For the last ten years, an average of ten (10) acres of tobacco have been planted per farm. Maryland farmers grow tobacco for several reasons: their families have done it for generations; they can usually produce a good quality crop; they enjoy and are familiar with the crop requirements; and--most importantly--they can make money growing tobacco. This last factor is the primary reason for growing this crop, despite some facets of market uncertainties.

Typically, farmers producing specialized crops are, to some degree, insulated from extreme swings of the marketplace by production quotas, marketing orders, and/or the general scarcity of a product given a strong demand. In the case of tobacco, however, market factors including a worldwide surplus of tobacco, high taxes, anti-smoking campaigns, and increased worldwide tobacco production are eroding our Maryland market and the prices received by growers for their hard work and investment.

Farmers must evaluate the place of tobacco in their production plans, and adjust their acreage devoted to tobacco as dictated by production costs relative to prices received. In some instances, fewer acres targeted to produce a higher quality leaf (e.g., through irrigation) may be the result; in other cases, tobacco production may be foregone entirely and a more profitable crop/venture undertaken. Crop and livestock diversification is a distinct alternative for Maryland farmers: if traditional tobacco production must be adjusted or eliminated, the financial viability of the farm should be the main consideration.

Major crop and livestock production in Maryland includes: corn, soybeans, wheat, vegetables, broilers, laying flocks, dairy, beef and hogs. More specialized operations include turfgrass, nursery crops, lumber, tree fruits and sheep. Tobacco farmers should investigate the potential of including one or a combination of these commodities in their operations. Management data are available from several sources for these purposes, including the Cooperative Extension Service, of the University of Maryland; County Extension offices; the Maryland Department of Agriculture; the U.S. Department of Agriculture; and independent farm consultants.

Farmers should consider various options, both in terms of crops and markets. For example, representative process budgets were constructed by a Commission staff member for some 18 crops; examples for tomatoes, strawberries, and sweet corn are provided in Tables 2, 3, and 4. In terms of markets, various "windows" or periods during which fresh fruits and vegetables are in demand in the Baltimore and Washington markets should be evaluated--as well as cannery markets, specialized markets (e.g., peanuts, pecans), and the traditional roadside stands.

Tobacco will continue to be produced in Maryland, but in what quantities and of what qualities become the main questions. The recent market problems serve as a reminder to Maryland tobacco growers that they must review appropriate alternatives and opportunities annually.

Study group I will continue to meet to compile and analyze farm commodity management data specific to Southern Maryland and make this information available to our farmers through the agencies and programs previously described.

Table 2.--A representative process budget for high density tomato production
(2,500 square feet)

CROP OPERATIONS		
<u>Operations</u>	<u>Schedule</u>	<u>Machine/Labor Hours</u>
Sterilize Soil	Feb. 1	1 hour
Lime (Hand Spreader)	Feb. 25	.34 hour
Fertilize (10-10-10) Broadcast hand spreader	Mar. 1	.50 hour
Rototill (2x), Rototiller	Feb. 26 & Mar. 1	.33x2= .67 hour
Set Plants (1,000)	Mar. 15	4.0 hours
Sidedress (10-20-20) by hand	Mar. 20	.33 hour
Fungicide (Bravo, Benlate) 3 gal. backpack sprayer	As Needed (4x)	.25x4 = 1 hour
Tie & Sucker	April, May	24 hours
Hoe (3x)	April, May, June	2 hours x 3 = 6 hours
Harvest	June 5 - Aug. 1	70 hours

LABOR				
<u>Operation</u>	<u>Replications</u>	<u>Labor Hours</u>	<u>Wage Rate</u>	<u>Cost/2,500 sq.ft.</u>
			\$	\$
Sterilize Soil	1	1.00	5.00	5.00
Lime	1	0.34	5.00	1.70
Fertilize	1	0.50	3.50	1.75
Rototill	2	0.33	5.00	3.30
Set Plants	1	4.00	3.50	14.00
Sidedress	1	0.33	3.50	1.16
Fungicide	4	0.25	5.00	5.00
Tieing	1	24.00	3.50	84.00
Hoe	2	4.00	3.50	28.00
Harvest	1	70.00	3.50	245.00
TOTAL LABOR COST:				388.91

Table 2. (continued)

CASH EXPENSES				
<u>Item</u>	<u>Replications</u>	<u>Rate</u>	<u>Cost/Unit</u> \$	<u>Cost/2,500 Sq.Ft.</u> \$
Sterilize Soil	1	2,500 sq.ft.	0.06	150.00
Lime (Bagged)	1	0.10 ton	35.00	3.50
Fertilizer				
10-10-10	1	50 lbs.	170.00/ton	4.25
10-20-20	1	20 lbs.	220.00/ton	2.20
Plants in 3" pots	1	1,000	.50	500.00
Fungicide				
Benlate	2	1.00 oz.	12.95/lb.	1.62
Bravo	2	2.00 oz.	27.00/gal	0.84
Heating Fuel	1	1,300 gal.	1.30	1,690.00
Containers (25#)	1	240	0.62	<u>148.80</u>
TOTAL CASH EXPENSES:				2,501.21

MACHINE OPERATING COSTS			
<u>Item</u>	<u>Hours</u>	<u>Cost/Hour</u> \$	<u>Cost/2,500 Sq. Ft.</u> \$
Rototiller	0.67	1.00	0.67
Heating Equipment (Estimate of Maintenance Cost)	--	--	30.00
Sprayer	1.0	Insignificant	--
Spreader	3.4	--	--
TOTAL MACHINE OPERATING COSTS:			30.67

Table 2. (continued)

COST SUMMARY		\$
CASH EXPENSES		2,501.21
MACHINE OPERATING EXPENSES		30.67
LABOR EXPENSES		388.91
TOTAL		2,920.79
COST/25# CONTAINER		12.17

YIELD/ACRE: 240 - 25# CONTAINERS PRICE: \$20.00

TOTAL REVENUE: \$4,800

Source: Robert H. Forste, Maryland General Assembly, October, 1984.
 Data: University of Massachusetts, Amherst, Mass.

Table 3.--A representative process budget for strawberries ("pick your own") production. (1 acre - established crop - 2 years bearing)(see budget for establishment)

CROP OPERATIONS		
<u>Operations</u>	<u>Schedule</u>	<u>Machine/Labor Hours</u>
Pull Back Mulch	April	4.0
Irrigate as needed, 3x	As needed	1.33 x 3 = 4.0
Hoeing and Weeding	As needed	10.0
Fungicide, 3x Tractor 25 hp gas 21" Sprayer	When needed	0.33 x 3 = 1.0
Harvest	All pick your own	--
Mulch Tractor 25 hp gas Trailer	Fall	2.0 Machine 6.0 Labor

CASH EXPENSES				
<u>Item</u>	<u>Replications</u>	<u>Rate</u>	<u>Cost/Unit</u> \$	<u>Cost/Acre</u> \$
Fungicide-Benlate	1	1.125 Pound	12.95	14.57
Mulch	1	1 Ton	75.00	75.00
TOTAL CASH EXPENSES				89.57

MACHINE OPERATING COSTS			
<u>Item</u>	<u>Hours/Acre</u>	<u>Cost/Hour</u> \$	<u>Cost/Acre</u> \$
Tractor 25 hp gas	3	2.07	6.21
Irrigation pump	4	4.50	18.00
TOTAL MACHINE OPERATING COSTS:			24.21

Table 3. (continued)

LABOR				
<u>Operation</u>	<u>Replications</u>	<u>Labor Hours</u>	<u>Wage</u> \$	<u>Cost/Acre</u> \$
Pull Back Mulch	1	4.00	3.50	14.00
Irrigation	3	1.33	3.50	14.00
Hoeing and Weeding	1	4.00	3.50	14.00
Fungicide Spraying	3	0.33	5.00	5.00
Mulching	1	6.00	5.00	30.00
TOTAL LABOR EXPENSE:				77.00

COST SUMMARY				
			\$	\$
CASH EXPENSES			89.57	
MACHINE OPERATING COSTS			24.21	
LABOR EXPENSE			<u>77.00</u>	
TOTAL ANNUAL COST OF MAINTENANCE				190.78
AMORTIZED ESTABLISHMENT COST				<u>779.61</u>
TOTAL COST				970.38

PRODUCT SUMMARY				
YIELD/ACRE	6,000 quarts	Price	\$ 0.95	
TOTAL REVENUE		\$5,700		

Table 3 (continued) Establishment Costs/Process Budget (per acre) of Strawberries

<u>Operation</u>	<u>Schedule</u>	<u>Hours/Acre</u>
Fumigation	Fall	1.0
Tractor 25 hp gas		
Fumigation rig		
Plowing	April	1.0
Tractor 50 hp diesel		
2-16" plow		
Fertilization	April	0.5
Tractor 25 hp gas		
8' spreader		
Harrow (2x)	April	0.5 x 2 = 1.0
Tractor 50 hp diesel		
8' Disc		
Planting (3 workers)	April	Mach. hrs. = 2.0
Tractor 50 hp diesel		Labor hrs. = 2.0 x 3 = 6.0
2 row transplanter		
Herbicide Application (2x)	April-July	0.5 x 2 = 1.0
Tractor 25 hp gas		
21' sprayer		
Fungicide	As needed	0.5 x 4 = 2.0
Tractor 25 hp gas		
21' sprayer		
Cultivation (10x)	Through	1.0 x 10 = 10.0
Tractor 25 hp gas	season	
2 row cultivator		
Weeding, Hoeing, Set Runners, Thinning	Through season	40.0
Irrigation (3x)	As needed	Mach. hrs. = 2.0 x 3 = 6.0
		Labor hrs. = 1.0
Mulching (3 workers)	November	Mach. hrs. = 2.0
Tractor 25 hp gas		Labor hrs. = 2.0 x 3 = 6.0
Trailer		

Table 3. (continued)

CASH EXPENSES				
<u>Item</u>	<u>Replications</u>	<u>Rate</u>	<u>Cost/Unit</u> \$	<u>Cost/Acre</u> \$
Plants	1	6,000	60.00/1,000	360.00
Fumigation-Vapam	1	50 gal.	7.60	380.00
10-10-10	1	0.50 ton	170.00	85.00
Herbicide-Dacthal	2	5.00 lb.	4.90	49.00
Fungicide-Benlate	4	0.38 lb.	2.70	4.05
Mulch	1	1 ton	75.00	<u>75.00</u>
TOTAL CASH EXPENSE:				953.05

MACHINE OPERATING COSTS			
<u>Item</u>	<u>Hours/Acre</u>	<u>Cost/Hour</u> \$	<u>Cost/Acre</u> \$
Tractor, 50 hp. diesel	4.0	3.04	12.16
Tractor, 25 hp. gas	16.5	2.07	34.16
Irrigation Pump	6	4.50	27.00
Pickup Truck	5	3.00	15.00
Plow	}	Total Operating Expense of All Miscellaneous Equipment	<u>7.50</u>
Disc Harrow			
Fertilizer Spreader			
2 Row Transplanter			
21' Boom Sprayer			
2 Row Cultivator			
Fumigation Rig			
TOTAL OPERATING EXPENSE			95.82

Table 3. (continued)

LABOR					
<u>Operation</u>	<u>Replications</u>	<u>No. of Workers</u>	<u>Labor Hrs.</u>	<u>Wage</u> \$	<u>Cost/Acre</u> \$
Fumigation	1	1	1.00	5.00	5.00
Plowing	1	1	1.00	5.00	5.00
Fertilization	1	1	0.50	5.00	2.50
Harrowing	2	1	0.50	5.00	5.00
Planting	1	2	2.00	3.50	14.00
	1	1	2.00	5.00	10.00
Herbicide Spraying	2	1	0.50	5.00	5.00
Fungicide Spraying	4	1	0.50	5.00	10.00
Cultivation	10	1	1.00	5.00	50.00
Weeding, Hoeing, etc.	-	-	40.00	3.50	140.00
Irrigation	3	1	0.33	5.00	5.00
Mulching	1	3	2.00	3.50	<u>21.00</u>
TOTAL LABOR EXPENSE:					272.50

COST SUMMARY

	\$
CASH EXPENSES	953.05
MACHINERY COSTS	95.82
LABOR EXPENSE	<u>272.50</u>
TOTAL ESTABLISHMENT COST:	1,321.37

This cost must be charged against the two bearing years of the strawberries; i.e., a basic charge of 660.68 per year plus accrued interest. If interest on investment is 12 percent per year, the charge against the first crop year is $(0.12 \times 1321.37) + 660.68 = 819.25$. The charge against the second crop year is $(0.12 \times 660.68) + 660.68 = 739.96$. An average amortization value of 779.61 may be used for the two years without imposing a large error.

Source: Robert H. Forste, Md. General Assembly, October 1984.
Data: University of Massachusetts, Amherst, Mass.

Table 4.--A representative process budget for sweet corn production (one acre)

CROP OPERATIONS		
<u>Operations</u>	<u>Schedule</u>	<u>Machine/Labor Hours</u>
Liming	April 1	Custom Application
Plowing Tractor, 50 hp diesel 3-16" plow	April	0.75
Harrow (2x) Tractor, 50 hp diesel 8' disc	April	.33 x 2 = 0.67
Fertilization (broadcast) Tractor, 25 hp gas 8' spreader	April	0.50 (Between Harrowings)
Plant & Fertilize (banding) Tractor, 25 hp gas 2-row planter	April	1.00
Herbicide (Atrazine, Lasso) Tractor, 25 hp gas 21' boom sprayer	April	0.33
Cultivate Tractor, 25 hp gas 2-row cultivator	May	0.33
Cultivate & Sidedress Tractor, 25 hp gas 2-row cultivator	May 25	0.50
Insecticide (4x) Tractor, 25 hp gas 21' boom sprayer	May-July	.33 x 4 = 1.33
Harvest (by hand) Truck	July (early)	20 labor hours 5.0 machine hours
Harrow (2x) Tractor, 50 hp diesel 8' disc	Oct.	.33 x 2 = 0.67
Cover Crop Tractor, 25 hp gas	Oct.	0.33

Table 4. (continued)

LABOR					
<u>Operation</u>	<u>Replications</u>	<u>No. of Workers</u>	<u>Labor Hrs.</u>	<u>Wage</u> \$	<u>Cost/Acre</u> \$
Plow	1	1	0.75	5.00	3.75
Harrow	2	1	0.33	5.00	3.33
Broadcast 10-10-10	1	1	0.50	5.00	2.50
Plant and Band	1	1	1.00	5.00	5.00
Herbicide	1	1	0.33	5.00	1.65
Cultivate	1	1	0.33	5.00	1.65
Sidedress	1	1	0.50	5.00	2.50
Insecticide	4	1	0.33	5.00	6.67
Harvest (5 workers)	1	4	4.00	3.50	56.00
	1	1	4.00	5.00	20.00
Harrow	2	1	0.33	5.00	3.33
Cover Crop	1	1	0.33	5.00	1.67
TOTAL LABOR COSTS					108.05

CASH EXPENSES				
<u>Item</u>	<u>Replications</u>	<u>Rate</u>	<u>Cost/Unit</u> \$	<u>Cost/Acre</u> \$
Lime	1	1.00 ton	25.00	25.00
Fertilizer				
Broadcast 10-10-10	1	0.50 ton	156.00	78.00
Band 15-15-15	1	0.25 ton	211.00	52.75
Sidedressing Ammo-Nit	1	0.10 ton	280.00	28.00
Herbicide				
Atrazine	1	2.50 lb.	1.90	4.75
Lasso	1	0.50 gal.	25.00	12.50
Insecticide				
Diazinon	4	2.00 lb.	4.50	36.00
Lannate	4	0.25 gal.	33.00	33.00
Corn Seed	1	12.00 lb.	2.50	30.00
Rye Seed	1	75 lbs.	0.12	9.00
Bags (Burlap)	1	200 bags	0.35	70.00
TOTAL CASH EXPENSE:				379.00

Table 4. (continued)

MACHINE OPERATING COSTS			
<u>Item</u>	<u>Hours/Acre</u>	<u>Cost/Hour</u> \$	<u>Cost/Acre</u> \$
Tractor, 50 hp diesel	2.09	3.04	6.35
Tractor, 25 hp gas	4.23	2.07	8.76
Truck	5.00	3.00	15.00
Plow	0.75	All Miscellaneous Equipment	<u>7.50</u>
Harrow	1.33		
Planter	1.00		
8' Spreader	0.75		
21' Boom Sprayer	1.67		
2 Row cultivator	0.83		
TOTAL MACHINE OPERATING COSTS:			37.61

COST SUMMARY		\$	
CASH EXPENSES		379.00	
MACHINE OPERATING EXPENSES		37.61	
LABOR EXPENSES		<u>108.05</u>	
TOTAL		524.66	
COST/DOZEN		0.52	

PRODUCT SUMMARY			
YIELD 1,000 dozen	PRICE (Wholesale)	\$	0.90
TOTAL REVENUE \$ 900.00			

Source: Robert H. Forste, Md. General Assembly, October 1984.
 Data: University of Massachusetts, Amherst, Mass.

Potential Domestic and Foreign Markets for Maryland Tobacco

Trends in Maryland Tobacco Acreage, Production, Value and Prices.

During the last 25 years, the total acreage of Maryland tobacco has gradually declined from about 40,000 acres to about 24,000. Despite the reduction in acreage, the decline in total production has been relatively small due to the gradual increase in yield per acre. Seasonal average prices and the total value of the Maryland tobacco crop, however, increased continuously until the 1981 crop year before falling dramatically the last two years.

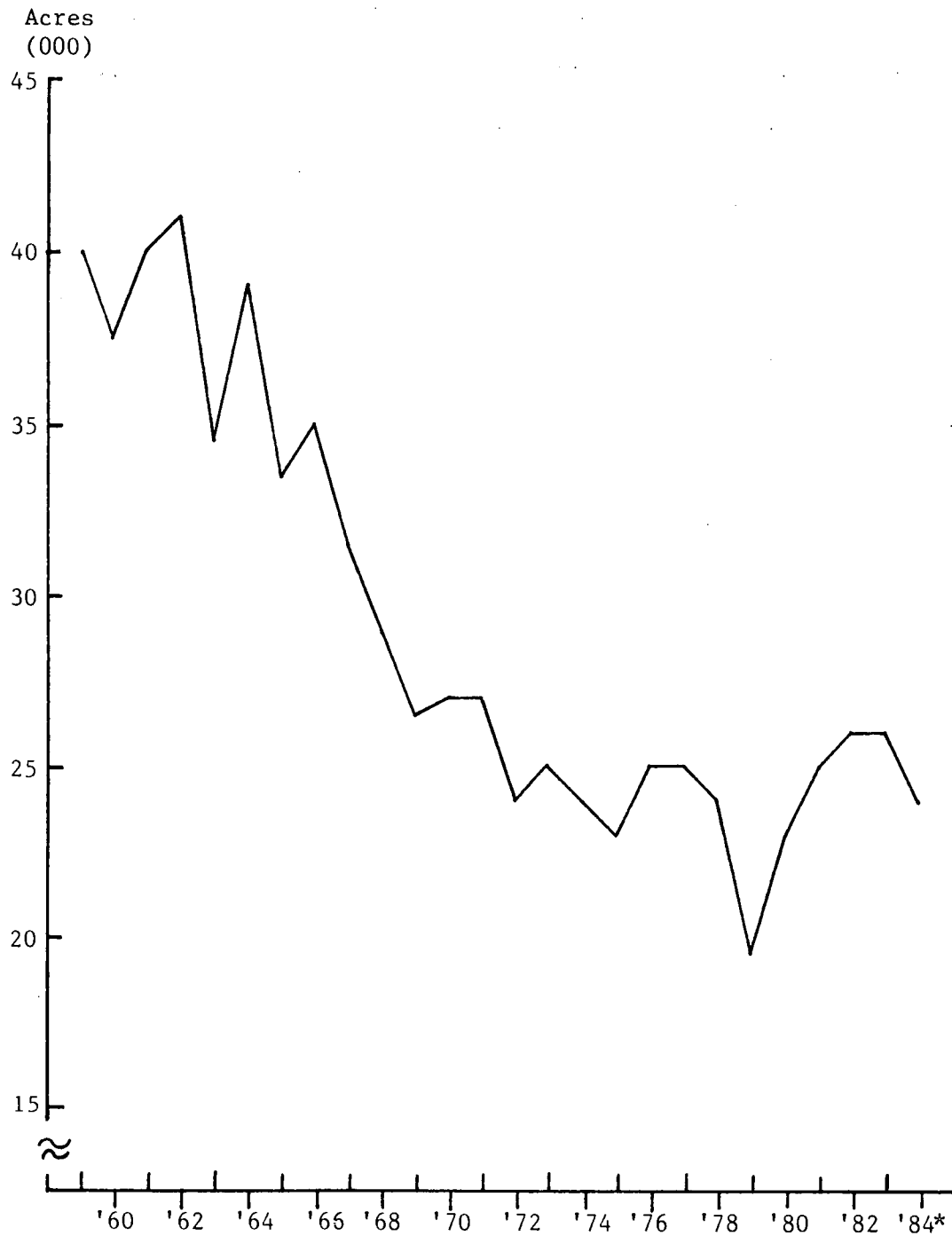
In 1979, acreage planted reached a low of 19,500 acres, total production was about 22 million pounds, and the value of the crop was approximately \$31 million. During the next two crop years (1980 and 1981) acreage, production, average price and the value of production all increased simultaneously, giving the impression that somehow prices had increased in spite of a rightward shift in the supply curve. The 1981 season average price was \$1.75 per pound, and the value of the crop reached \$58 million, the highest on record. The increase in the value of production from \$31 million in 1979 to \$58 million in 1981 represented an 87 percent increase in just two years.

This may have provided an incorrect signal of a stronger-than-normal underlying demand for Maryland tobacco. In fact, during those two years, burley tobacco was in short supply, and several domestic and nontraditional foreign buyers were buying more Maryland tobacco as a burley substitute.

There was, therefore, a significant rightward shift in the demand curve for Maryland tobacco which more than compensated for the supply shift, causing average prices to rise along with increased sales. With the return of normal burley production in 1982 and the record 1983 crop, the excess demand for Maryland tobacco vanished, and the Maryland tobacco market plunged. Between the 1982 and 1983 crop years, average Maryland tobacco prices fell from \$1.53 to \$1.05 per pound and the total value of production fell from \$57 million to \$37 million (Figures 1 through 4, and Table 5).

Figure 1

MARYLAND TOBACCO: ACREAGE HARVESTED, 1959-1984



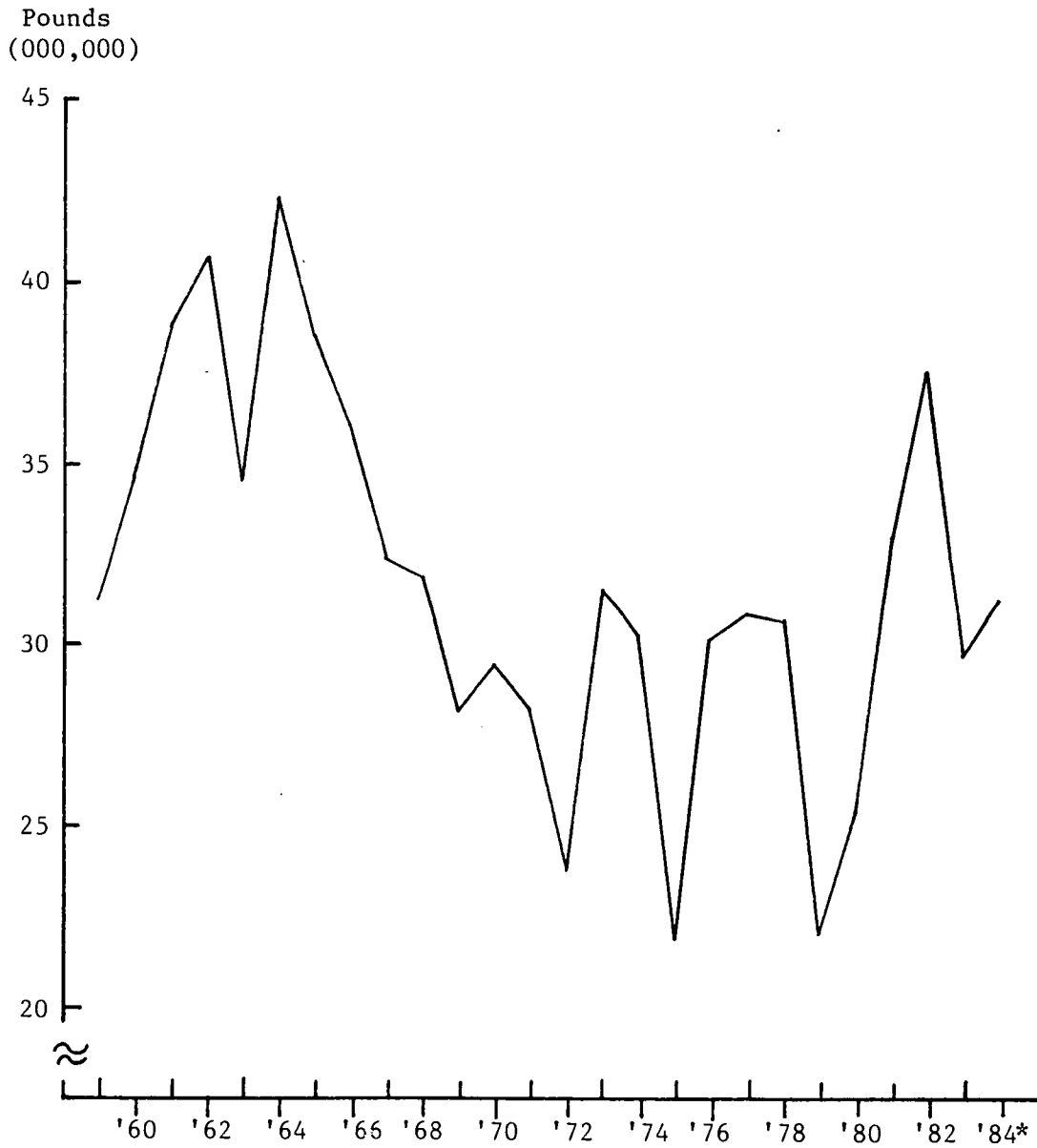
* Preliminary

Source: Maryland Department of Agriculture data

Prepared by: Maryland Department of Economic & Community Development
Division of Research

Figure 2

MARYLAND TOBACCO: TOTAL PRODUCTION, 1959-1984



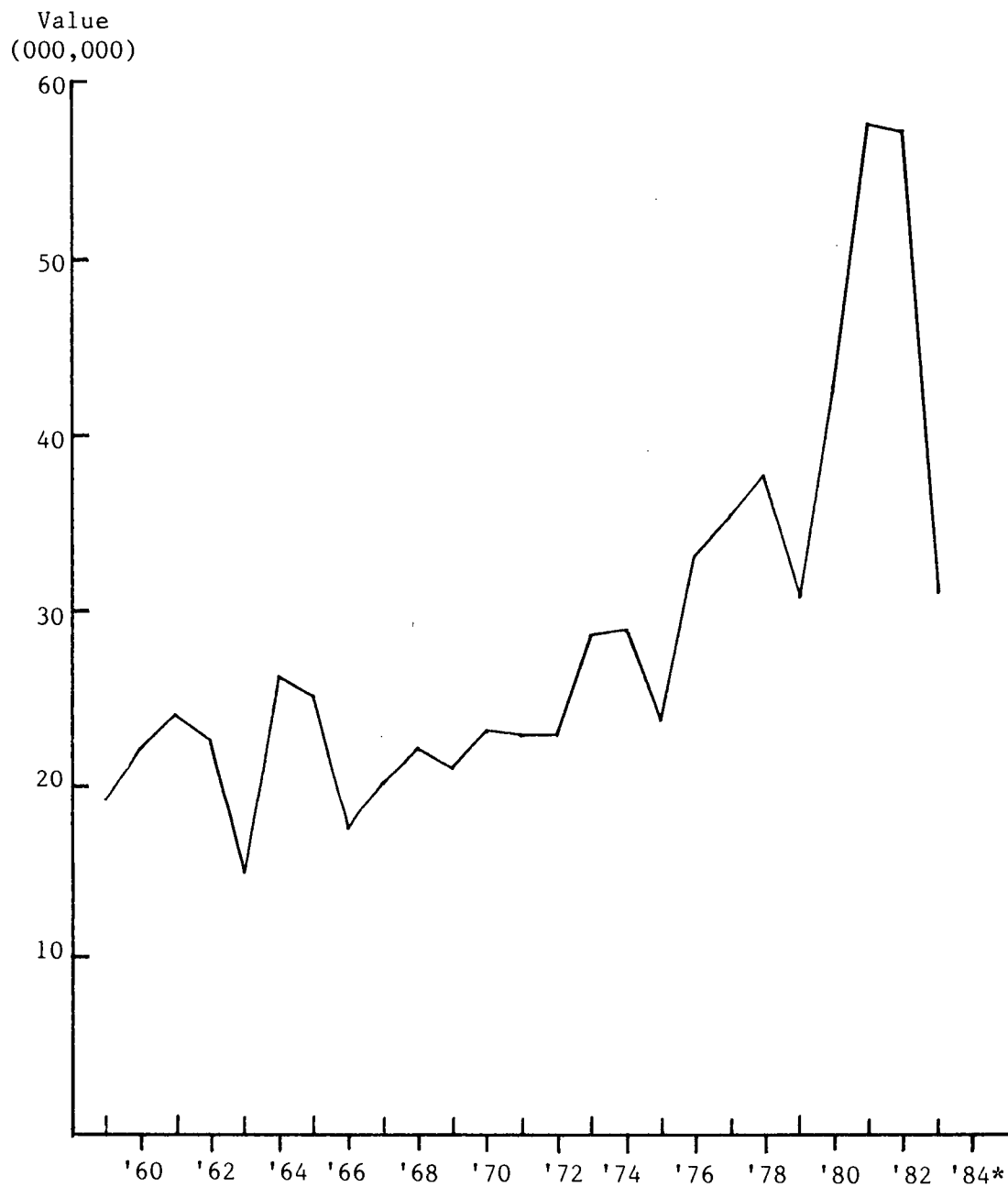
* Preliminary

Source: Maryland Department of Agriculture data

Prepared by: Maryland Department of Economic & Community Development
Division of Research

Figure 3

MARYLAND TOBACCO: VALUE OF PRODUCTION, 1959-1984



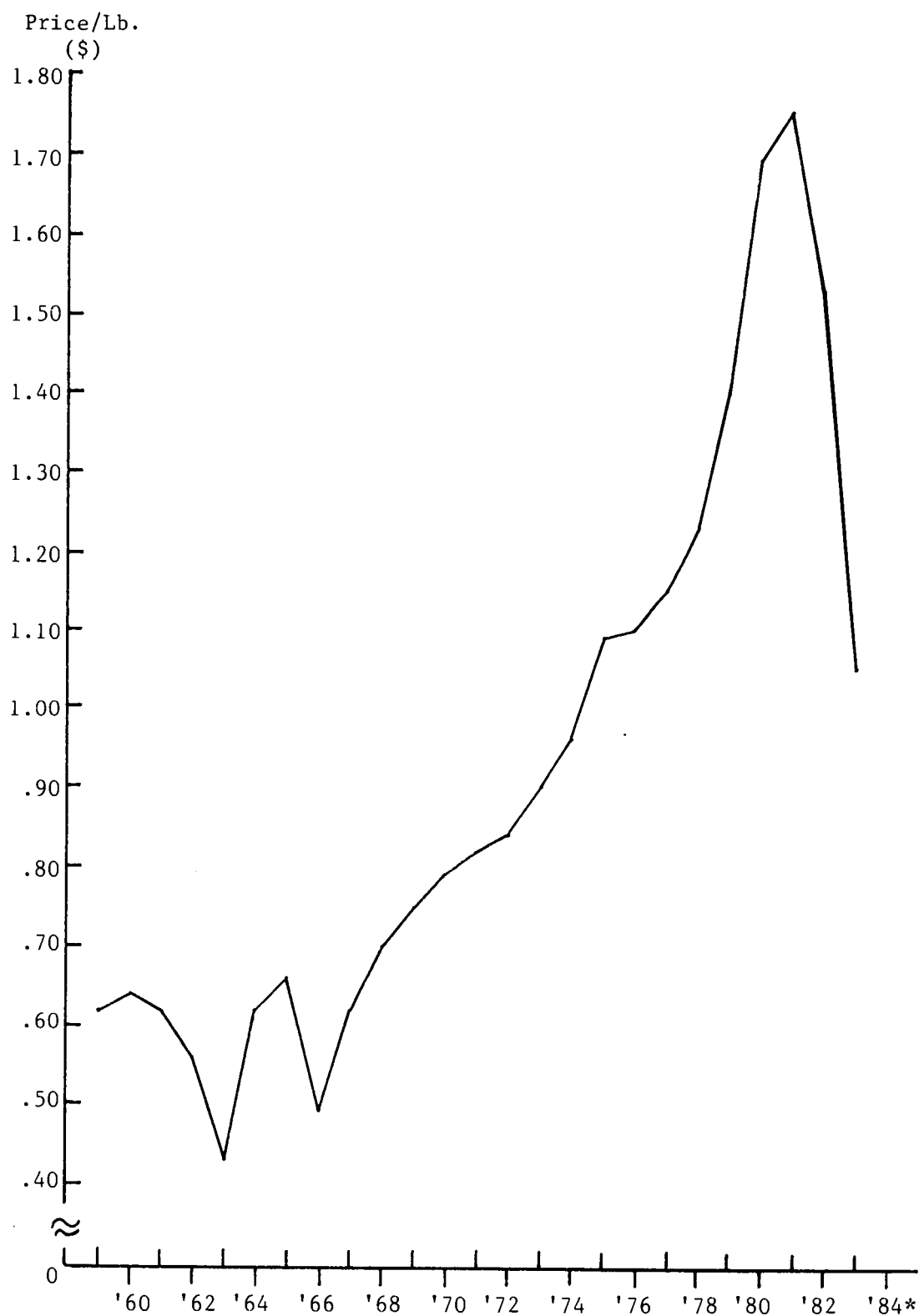
* Preliminary

Source: Maryland Department of Agriculture data

Prepared by: Maryland Department of Economic & Community Development
Division of Research

Figure 4

MARYLAND TOBACCO: AVERAGE PRICE PER POUND, 1959-1984



* Preliminary.

Source: Maryland Department of Agriculture data

Prepared by: Maryland Department of Economic & Community Development
Division of Research

Table 5. Maryland (U.S. Type 32) Tobacco Acreage, Yield, Production, Prices and Value, 1977-1984

Year	Acreage Harvested	Season Yield per Acre	Total Production	Average Price	Value of Production
	(Acres)	(Pounds)	(1,000 lbs.)	(\$/lb.)	(Million \$)
1977	23,000	1,310	30,130	1.15	34.7
1978	24,000	1,275	30,600	1.23	37.7
1979	19,500	1,130	22,035	1.40	30.8
1980	23,000	1,100	25,300	1.69	42.7
1981	25,000	1,320	33,000	1.75	57.7
1982	27,000	1,390	37,530	1.53	57.3
1983	27,000	1,100	29,700	1.05	31.1
1984 ^P	24,000	1,300	31,200	--	--

^P = preliminary, November estimate.

Source: Maryland Department of Agriculture

Data Rounded

Overview: The Demand for Maryland Tobacco and Our Markets.

Maryland Tobacco is in demand by two distinct sets of buyers.

First, there are buyers who consider Maryland tobacco as a unique product, substantially different from burley and other tobaccos, and who use this product to produce a distinct taste in cigarettes. This group principally includes the "traditional export market," consisting of Switzerland, West Germany, The Netherlands, and Belgium-Luxembourg. These countries use substantial quantities of Maryland tobacco in blending several cigarettes they manufacture.

A few large domestic cigarette companies also consider the product to be unique, but use a very small percentage of Maryland tobacco in their cigarette blends.

Second, there are several large domestic cigarette manufacturers who increasingly view Maryland tobacco as a burley substitute. A few foreign buyers, such as Egypt and Israel, also seem to have followed this practice. These buyers often base their Maryland tobacco purchase decisions on the availability and price of burley tobacco. When burley tobacco is in large supply, their demand for Maryland tobacco falls sharply. The problem with being a burley substitute is that it makes the Maryland tobacco market extremely vulnerable to fluctuations in burley tobacco production, stocks, and prices.

Total sales of Maryland tobacco are made up of the proportions that go to (a) domestic buyers (2/3 to 3/4), and (b) foreign buyers (1/4 to 1/3).

Therefore, any sales promotion efforts, including export promotion, must address both segments of the market. The sales promotion efforts should be focused on:

(a) direct purchases by domestic tobacco manufacturing companies (such as The American Tobacco Company, R. J. Reynolds, Philip Morris);

(b) direct purchases by representatives of foreign tobacco manufacturing companies (such as Switzerland and West Germany);

(c) purchases by other buyers and agents who buy the product on behalf of, or for resale to, their foreign and domestic clients (such as Gieske & Niemann, Universal Leaf Tobacco Co., and Dibrell Brothers, Inc.); and

(d) domestic and foreign tobacco manufacturing companies that use Maryland tobacco in their products, but purchase it indirectly through brokers or agents.

Continued liaison with all four market segments is essential to a successful promotion of Maryland tobacco.

With the above considerations as background, we turn to an examination of the efforts of Study Groups II (domestic aspects) and III (foreign aspects).

Study Group II: The Domestic Market

Study group II was charged with evaluating the domestic market for Maryland tobacco. To do this, the group designed and mailed a questionnaire to the domestic purchasers of Maryland Type 32 tobacco, soliciting their opinions on current domestic market problems and the future of the tobacco industry.

The questionnaire was sent to (1) the Universal Leaf Tobacco Company, Inc.; (2) the American Tobacco Company; (3) Dibrell Brothers, Inc.; (4) R. J. Reynolds Tobacco Company; (5) Gieske and Niemann, Inc.; and (6) the Free State Packing Corporation, and posed the following questions:

1. Do you currently purchase Maryland tobacco?
2. Did you buy more or less Maryland tobacco in 1984 than in 1983?
3. If less, was this due to decreased demand or poor quality of the crop?
4. Do you expect to purchase more or less Maryland tobacco in 1985 assuming that the tobacco meets your quality requirements?
5. What major factors determine how much Maryland tobacco you purchase?
6. Do you have any projections for changes in the consumption of tobacco products which you could share with us?

The questionnaire (Exhibit A) and the responses from the major tobacco buyers are shown in Exhibits (B) through (F). The study group summarized these responses as follows:

(a) There was a decline in manufacturers' purchases in 1984.

Although the demand for Maryland tobacco varies from year to year, it is influenced by the size of the U.S. burley crop. A small burley crop in 1980 and 1981 led to a strong demand for Maryland tobacco and record prices. This situation may have created the impression that the underlying demand for Maryland tobacco was significantly higher than was actually the case. With the harvest of a large U.S. burley crop in 1982 and 1983, less Maryland tobacco was purchased and the price fell. The combination of an ample burley crop and poor quality of the Maryland crop in 1983 resulted in a disastrous market situation.

(b) The companies expect to buy more Maryland tobacco in 1985. However, this prediction is contingent on price, quality and consumer demand for the tobacco product.

(c) The forecast for the future of the tobacco industry appears grim; no significant increase in the use of tobacco is expected.

(d) The characteristics that the domestic tobacco buyers are seeking are thin, clean, ripe, cherry-to-brown leaves with a good burning quality and an appropriate nicotine factor.

In keeping with the concept of maintaining liaison with all market segments, the study group considered hosting a reception for domestic buyers prior to the beginning of the tobacco auction in March 1985. However, the study group and the Commission came to the conclusion that greater effectiveness in promoting purchases of Maryland tobacco can be obtained through meetings with individual buyers, not only during the auction period, but throughout the production season to keep abreast of domestic (and, for that matter, foreign) trends in production, prices, and market conditions. Study group II, therefore, will continue to monitor the activities and requirements of domestic tobacco companies.



SENATE OF MARYLAND

ANNAPOLIS, MARYLAND 21401-1991

JAMES C. SIMPSON
STATE SENATOR
28TH LEGISLATIVE DISTRICT
CHARLES AND ST. MARY'S COUNTIES
MEMBER:
ECONOMIC AFFAIRS COMMITTEE

DISTRICT OFFICE:
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(DC) 843-1882
ANNAPOLIS ADDRESS:
316 SENATE OFFICE BLDG.
841-3616
(DC) 858-3616

September 14, 1984

Mr. K. Michael Irish
Director of Public Affairs
Philip Morris, USA
120 Park Avenue
New York, New York 10017

Dear Mr. Irish:

On behalf of the Southern Maryland Agricultural Commission, I would like to request your cooperation in providing information regarding the Maryland tobacco market. As I am sure you are aware, the 1984 market was disastrous for many Maryland farmers. In addition to the drastic drop in price per pound, a number of farmers were unable to sell their crop.

Concerned over the significant economic loss caused by the drop in tobacco sales, the Maryland General Assembly established the Southern Maryland Agricultural Commission (SMAC). The commission is charged with analyzing the current state of the Maryland tobacco growing industry and evaluating its future viability.

As a first step in our evaluation of the current health of the Maryland tobacco industry, we are contacting purchasers of Type 32 tobacco in an attempt to identify the probable future demand for this product. If at all possible, we would like to find out:

- 1) do you currently purchase Maryland tobacco?
- 2) did you buy more or less Maryland tobacco in 1984 than in 1983?
- 3) If less, was this due to decreased demand or poor quality of the crop?
- 4) do you expect to purchase more or less Maryland tobacco in 1985 assuming that the tobacco meets your quality requirements?
- 5) what major factors determine how much Maryland tobacco you purchase?
- 6) what characteristics are you looking for in Maryland tobacco?
- 7) do you have any projections for changes in the consumption of tobacco products which you could share with us?

Mr. K. Michael Irish
September 14, 1984

-2-

We would be happy to meet with you or your representative to discuss these issues. While we realize there are numerous factors which influence your decision regarding tobacco purchases, we would appreciate any assistance you can provide us. I have always been a strong supporter of the tobacco industry and I feel it is in the interest of both the farmers and the tobacco manufacturers to maintain a healthy tobacco industry in Southern Maryland.

If you have any questions regarding my request, please give me a call.

Sincerely,

James C. Simpson

cc: Members, So. Md. Agricultural Commission

Same letter sent to:

September 14, 1984

Mr. Thomas R. Towers
President
Universal Leaf Tobacco Co., Inc.
P.O. Box 25099
Richmond, Va. 23260

Mr. Lougee
President
American Tobacco Company
245 Park Avenue
New York, N. Y. 10167

Mr. W. E. Michaels
President
Dibrell Brothers, Inc.
P.O. Box 681
Danville, Va. 24543

Mr. Jack Horton
President
Free State Packing Corp.
P.O. Box 280
Kenbridge, Va. 23944

Mr. Lester W. Pullen
President
Reynolds Tobacco
401 North Main Street
Winston-Salem, N. C. 27102

Mr. Edward Gieske, Jr.
Gieske and Niemann, Inc.
Upper Marlboro, Md. 20772

Universal Leaf Tobacco Co.
INCORPORATED
EXPORTERS AND IMPORTERS
Richmond, Virginia 23260

October 8, 1984

Senator James C. Simpson
P. O. Box 888
Waldorf, Maryland 20601

Dear Senator:

Thank you for your letter of September 14, 1984 to Tom Towers requesting information on the Maryland tobacco market. Mr. Towers is unfortunately out of town at the present time but has asked me to respond to your letter.

I certainly share your view about the 1984 market for Maryland tobacco. Because of adverse weather conditions the quality of the crop was one of the poorest in the last 30 years. The result was a sharp drop in demand and prices resulting in a disasterous year for many Maryland growers as well as buyers and processors of Maryland leaf. Hopefully we will not see a repeat of the 1984 season for the next 30 years, if ever.

Let me try to address your specific questions.

1. Universal Leaf is currently a significant purchaser of Maryland tobacco.
2. Our purchases were lower in 1984 than 1983.
3. This decline was due to lower demand occasioned principally by the poor quality of the crop.
4. Assuming the quality of the 1985 crop is acceptable we would expect customer orders and therefore our purchases to be higher.
5. Demand for Maryland tobacco principally comes from two sources, domestic and foreign, both of whom use Maryland as an integral part of their cigarette blends. In general their demand tracks cigarette consumption; however, there may be year to year variations in their purchases due to such factors as price, crop quality, and inventory policies. The demand for Maryland can also vary significantly from year to year as the size of the U.S. burley crop fluctuates. Short burley crops in 1979 and 1980 led to strong demand for Maryland by some domestic manufacturers in 1980 and 1981 and record prices. It also may have created the impression that the underlying demand for Maryland tobacco was significantly higher than was actually the case. With the return of large

Universal Leaf Tobacco Co.

INCORPORATED
Richmond, Virginia 23260

- 2 -

Senator James C. Simpson
October 8, 1984

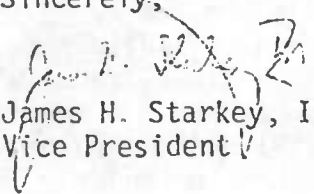
burley crops in 1981 and 1982, less Maryland was bought by these manufacturers and prices softened in 1982. This led into the situation in 1983 where ample supplies of burley tobacco and the very poor quality of the Maryland crop resulted in the disastrous market situation.

6. The leaf characteristics we are looking for reflect the intended use of the tobacco. For customers who use Maryland in their blend (such as the Swiss) we are looking for tobacco which is mature, ripe, and thin - the more traditional Maryland type of tobacco. The domestic manufacturers are also looking for ripe tobacco but they are also interested in the more bodied leaf with a higher nicotine content.
7. The trends in consumption of tobacco products are ultimately important in determining the potential demand for Maryland leaf. We generally use projections available from the U.S. Department of Agriculture to develop our own analysis. You can obtain these projections by contacting Verner Grise, Economic Research Service, U.S. Department of Agriculture, 500 12th Street Southwest, Room 212, Washington, D.C., 20250.

I hope that this information is helpful in your efforts to evaluate the future of the Maryland tobacco industry. There are a number of other factors which obviously will play an important roll in determining the future demand for Maryland tobacco. Key among these is the price and availability of U.S. burley. This reflects the fact that some manufacturers seem to increasingly look at Maryland tobacco as a burley substitute. This parallels movement by the growers away from the more traditional Maryland varieties to the heavier higher yielding types for economic reasons.

As a significant purchaser of Maryland tobacco we are vitally interested in maintaining a strong and viable tobacco industry in Southern Maryland. As I have tried to suggest above, the factors affecting the demand for Maryland tobacco are quite complex. If I can provide any additional information on these issues please don't hesitate to let me know.

Sincerely,


James H. Starkey, III
Vice President

JHSIII/shh

THE AMERICAN TOBACCO COMPANY
A DIVISION OF AMERICAN BRANDS, INC.
245 PARK AVENUE, NEW YORK, NEW YORK 10167

Office of the
President and
Chief Executive Officer

October 17, 1984

Senator James C. Simpson
Senate of Maryland
316 Senate Office Building
Annapolis, Maryland 21401-1991

Dear Senator Simpson:

Reference is made to your September 14 letter to me regarding the Maryland tobacco market.

The American Tobacco Company has bought Maryland tobacco for about 45 years. Due to the strong dollar, cigarette sales declines, foreign competition, weather conditions, domestic and foreign demand, etc., tobaccos grown in the U.S. have had tough times recently.

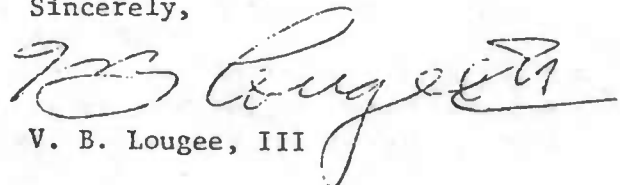
Maryland had a particularly rough crop last year and we are sympathetic to the Maryland tobacco farmer's problem and hope to buy Maryland tobacco for years to come.

Specific answers to the questions posed in your letter follow:

- 1) Yes
- 2) Less
- 3) Both poor quality and decreased demand
- 4) About the same
- 5) Cigarette sales forecasts, quality and price
- 6) Clean, ripe cherry-to-brown tobacco with good burn quality and appropriate nicotine.
- 7) John Maxwell, an analyst with Becker-Parabolas, Inc. in New York, publishes industry sales projections.

We hope the above is helpful to you.

Sincerely,


V. B. Lougee, III

DIBRELL BROTHERS, INCORPORATED

512 BRIDGE STREET

DANVILLE, VIRGINIA 24541 U.S.A.

TELEPHONE 804 792-7511

CABLE ADDRESS "DIBRELL"

TELEX 574455



October 1, 1984

Senator James C. Simpson
Senate of Maryland
316 Senate Office Building
Annapolis, MD 21401-1991

Dear Senator Simpson:

Our firm, Dibrell Brothers Incorporated, is an international purchaser and processor of tobacco and in this capacity we do not produce any manufactured products for consumption. Generally we respond to instructions by clients and particularly on the U.S. Maryland markets our market policy is dictated by our clients.

The export market is vital to the success of the U.S. Maryland market. To our knowledge Maryland is exported to the EEC countries, Switzerland, Spain, and areas in the Middle East. Each of these clients, in the past, purchased Maryland for only one reason - the particular and unique characteristic of quality U.S. Maryland.

The downturn in interest in U.S. Maryland (export market) can probably be attributed to two primary factors:

- A. Overall quality deterioration - At least for the last ten years a gradual quality change has been noted by our clients and today these clients consider your tobaccos almost in the category of Burley, rather than old style Maryland, with its unique flavor, burn, and filling characteristics.
- B. Industry problems - The markets which traditionally purchase your tobaccos have experienced dramatic tax increases while faced with the strengthening dollar. Sales declines, particularly in Europe, are known to everyone, and the manufacturers have been forced to make blend changes to maintain their profitability. Whereas blend formulas were once sacred and untouchable, today's blends must be altered due to economics, chemistry, etc.

Unfortunately, the Maryland percentage in most European cigarettes is extremely low and the next reduction could eliminate U.S. Maryland from these blends, unless the overriding factor - TASTE - dictates maintaining Maryland in the blend.

While we cannot name a particular European manufacturer who has eliminated your product from their blends, we can certainly name those who are considering doing so. Your international customer base recognizes the higher production cost in the U.S. and is willing to support your farmers, providing the quality returns to past standards.

Senator James C. Simpson

2

October 1, 1984

Once a customer departs from the United States market and substitutes a cheaper off shore tobacco, to recover this customer is almost impossible. The establishment of your Commission is very timely - please convey to these gentlemen and their associates, the demand exists for true Maryland from Maryland, and to continue to produce a Burley substitute in Maryland is not, in our opinion, the proper decision.

Our close friend, Dr. Claude McKee, can explain to your Commission the characteristics of today's Maryland vs. the traditional Maryland of ten to fifteen years ago.

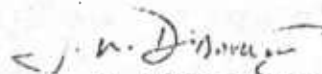
Below we specifically address your questions:

1. Yes
2. More
3. NA
4. Same, possibly more
5. Client demand - obviously a function of price and quality
6. True Maryland taste, filling capacity, clean burn
7. No growth to sales decreases in traditional export markets. However, this should not condemn U.S. Maryland to the same trend! The possibility of new export markets and increased blend percentages in traditional markets is very possible.

Thank you for your interest in the tobacco industry and if we may be of further assistance, please do not hesitate to contact us.

With kindest regards, we are

Sincerely yours,


L. N. Dibrell III
Vice President

jc

cc: H. F. & Ph. F. Reemtsma GmbH & Co., Attn: Mr. K. Rehberg
CINTA, S.A., Attn: Mr. M. Maus
TABACOFINA, S.A., Attn: Mr. H. Visser
Bad. Tabakmanufaktur "Roth-Haendle" GmbH & Co., Attn: Mr. K. Zieger
F. J. Burrus & Cie SA, Attn: Mr. F. Dahlgren
Philip Morris U.S.A., Attn: Mr. E. A. Day

R.J.Reynolds Tobacco Company
Winston-Salem, N.C. 27102

Robert E. Clements
Vice President

RJR

October 5, 1984

Honorable James C. Simpson
State Senator
28th Legislative District
Annapolis, Maryland 21401-1991

Dear Mr. Simpson:

In regard to your letter to Mr. G.H. Long requesting information concerning the future of the Maryland Tobacco Industry, the 1983 Maryland crop was recognized by the entire industry to be one of the lowest quality crops that had been produced in recent years. It was most unfortunate that so many growers suffered financially, but that can be expected when a crop such as the 1983 was a complete disaster.

In answer to the questions concerning the probable future demand of Maryland tobacco:

1. Do you currently purchase Maryland tobacco?

Yes, we currently purchase Maryland tobacco. It has been a part of our blend for the past forty years.

2. Did you buy more or less Maryland tobacco in 1984 than in 1983?

✓ More tobacco was purchased in 1983 than 1984, although during the first three weeks of the 1984 market we purchased over 50% of the tobacco, knowing that Reynolds could not support the market at this rate, approximately one third of the crop was eventually bought.

3. If less, was this due to decreased demand or poor quality of the crop?

Less tobacco was purchased in 1984 due to the poor quality and smaller crop as compared to 1983.

Honorable James C. Simpson
October 3, 1984
Page Two

4. Do you expect to purchase more or less Maryland tobacco in 1985 assuming that the tobacco meets your quality requirements?

Our present plans call for our purchasing more Maryland tobacco in 1985; but that is certainly contingent on price, as well as quality.

5. What major factors determine how much Maryland tobacco you purchase?

The major factors that determine the quantity of our purchases depend upon price, quality, and consumer demand of our products.

6. What characteristics are you looking for in Maryland tobacco?

The characteristics we look for in Maryland tobacco is ripeness and thinness. Maryland tobacco, type 32, has taken on more of a Burley likeness, type 31, and doesn't have the same smoke characteristics Maryland once had. I believe this is due to the change in variety and possibly some cultural practices.

7. Do you have any projections for changes in the consumption of tobacco products which you could share with us?

In view of a depressed worldwide industry sales volume, we see no favorable projection for increased usage of Maryland tobaccos. Two additional factors affecting consumption will be the number of states increasing their cigarette taxes and restrictive smoking laws. In the area of taxes, we see a large number of states increasing their cigarette taxes during 1985. As far as restrictive smoking laws, we see no let up by the anti-tobacco forces to stop the consumer from smoking in public as well as work places.

We share your concern about the current state of the Maryland market and would be most happy to meet with you to discuss these issues.

Yours truly,



R. E. Clements

GIESKE & NIEMANN

INCORPORATED

Leaf Tobacco

P. O. BOX 347
55 GWYNNS MILL COURT
OWINGS MILLS, MARYLAND 21117

BALTIMORE, MARYLAND

P. O. BOX 128
UPPER MARLBORO
MARYLAND, 20772

ESTABLISHED 1858
10 October 1984

CABLE ADDRESS:
GIESKE (BALTIMORE)
TELEX: 710-862-9174

TELEPHONES:
BALTIMORE: 301-363-1188
MARLBORO: 301-627-3697

Owings Mills

PLEASE REPLY TO:

Mr. James C. Simpson, State Senator
Senate of Maryland
316 Senate Office Bldg.
Annapolis, MD 21401-1991

Dear Senator Simpson,

I apologize for this tardy response to your letter of September 14, 1984, but during the last month we have been expending considerable effort to "move" as much of the 1983 crop into the trade and thus preclude its co-mingling with the new crop. In that effort, we have been reasonably successful.

As to your questions, the answers are as follows:

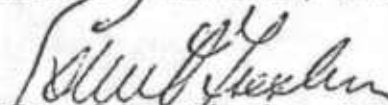
1. Yes
2. Less
3. Poor quality resulted in decreased demand.
4. Yes
5. The needs of our customers. Quality and quantity will influence their desire and ability to fulfill those needs.
6. As most of our customers produce "Maryland" cigarettes, they are looking for the best quality from the point of view of aroma. Burning quality, filling capacity, tar and nicotine levels fall closely behind. Regrettably, this over-all quality cannot be produced while striving for maximum yield. In order to achieve the "perfume" aroma, found in Maryland tobaccos of old, seems to require significant quantities of the old breeds (Catterton, Moore, etc.) in the new high yielding hybrids. Regrettably, 609 is deficient in this area, but is the only current strain resistant (not immune) to Black Shank. I have been informed that field application of Ridomil is quite effective at controlling Black Shank and thus should make it practical to raise 341, 201 and 872 in affected areas.

7. Within our area of involvement, we see only a current slight diminution.

With hopes that the above will be helpful to you and the Commission, I wish to make myself available for further consultation if desirable. In the meantime, I remain, with best wishes,

Sincerely,

GIESKE & NIEMANN, INC.



Edward T. Gieske, Jr.
President

ETGJR:vsm

Study Group III: The Foreign Market

Study group III was charged with examining both (a) the enhancement of our traditional export markets and (b) developing potential new export markets. Given the problems associated with being a burley substitute, the long-term stability of the Maryland tobacco market would come from (a) the uniqueness of the product in terms of quality characteristics and market display; (b) the traditional export markets; and (c) other buyers who currently use or could possibly start using the product for its uniqueness. We must, therefore, consider Maryland Tobacco Export Trade Missions in the near future.

The Maryland Tobacco Trade Mission would address two (2) distinct markets:

(a) the Traditional Export Market--consisting of Switzerland, West Germany, Netherlands, and Belgium-Luxembourg, and

(b) The Non-Traditional and Potential Export Market--consisting of Egypt, Israel, and Taiwan.

Separate export trade missions may be undertaken in these two markets, starting with the traditional market. The trade mission to the traditional market would visit all current and prospective buyers and users of Maryland tobacco in Switzerland, West Germany, the Netherlands, and Belgium-Luxembourg.

The trade mission to the traditional market could visit all four countries during the summer or early fall of 1985. The trade mission could visit one city in each of these four countries and be able to contact all buyers and users of Maryland tobacco. These cities are:

Switzerland: Geneva

Belgium-Luxembourg: Brussels

West Germany: Hamburg

The Netherlands: Amsterdam

The trade mission would meet with representatives of these companies, and, if invited, visit some tobacco manufacturing facilities in those countries. Given an average of two days spent at each destination, and two days for journey to and from the U.S., the trade mission could be completed in about 10 days.

The U.S. embassies, consular offices, trade attaches, and agricultural attaches in these countries may be contacted in advance to coordinate the meetings, receptions, travel arrangements, local contacts, and accommodations. The total number of persons on this first Maryland Tobacco Export Trade Mission would probably include legislators, coordinators at the Maryland DECD, the MDA, and the DLR, and farming/industry representatives.

A tentative budget for this mission, based on the above, will be prepared by Richard Baker (MDA), with the assistance of Pradeep Ganguly (DECD).

Funding for the Maryland Tobacco Export Trade Mission must be explored, including the resources of the Legislature, MDA, DECD, tobacco companies, brokers and buyers, the USDA, the Tri-County Council for Southern Maryland, and individuals selected for the mission who are not associated with administrative or legislative bodies. The Commission staff would individually and collectively contact these sources.

While the details of the goals, objectives, and terms of reference of this mission are yet to be worked out, they would include the following aspects:

- a. Above all, this must be viewed as a good-will mission.
- b. The objectives are to directly contact, meet with and maintain close liaison with these companies on a state level;
- c. To ascertain and address their present concerns and needs;
- d. To ascertain their future concerns and needs;

e. To discuss possibilities of joint advertising campaigns (ad campaigns such as: "If you must smoke, smoke cigarettes with the finest Maryland tobacco.");

f. To discuss other areas of joint or singular effort;

g. To ascertain the impacts of current and proposed tariffs, taxes, quotas, and anti-smoking campaigns;

h. To visit tobacco manufacturing facilities; and

i. To meet with firms that could be potential users of Maryland tobacco.

Upon its return, the mission would prepare a report within a reasonable amount of time. The report will be prepared by the coordinators from the Maryland DECD and the MDA, with the assistance of the DLR representatives and other members of the mission. The mission would submit its findings and report to the Governor and the Legislature, the Southern Maryland Agricultural Commission, the Departments of Agriculture and Economic and Community Development and other pertinent legislative committees. If the export trade mission to the traditional markets is successful, a second mission may be undertaken to the non-traditional and potential markets. The second export trade mission could possibly be limited to only three countries: Egypt, Israel and Taiwan.

The promotion of Maryland tobacco in the nontraditional and potential markets must be undertaken in such a manner that we do not overextend our available normal supply of Maryland tobacco. The creation of new markets would involve commitments on the part of both the growers and the State. If new markets create excessive demand for the product that cannot be easily fulfilled, it will not only harm these new commitments, but our long-standing commitment to the traditional export and domestic markets as well.

In summary, despite the adverse Maryland tobacco market conditions of the two previous seasons, it is possible to revitalize this important segment of the Maryland economy. Whether it is a small blend proportion in the domestic cigarette industry or a relatively larger blend proportion in our traditional export markets, what sells the product is its quality. In the long run, the product must sell due to its quality and price considerations; export and other sales promotion events only bring the necessary information to potential buyers and assist in the consolidation and creation of markets.

It is imperative that emphasis be placed on producing a quality leaf: a leaf that is unique in its characteristics and distinct from all others. Sales promotional campaigns can then help to market it as such--a unique and distinct product. It is also important that we emphasize the limited use of urea in the production of Maryland tobacco; the importance of irrigation; the display of cured tobacco in "hands" (which is the preference of most of the buyers); and improved lighting arrangements in the warehouses and packing facilities. We must also develop and maintain close ties with all buyers of Maryland tobacco.

Potential and Current Related Programs and Policies

The Commission recognized that given the current economic, financial and political conditions of the Maryland tobacco industry, a single solution or program will not provide desired price and market stability. In addition to strengthening production alternatives and domestic/international markets, the State of Maryland has several existing programs for the agricultural industry that can support Southern Maryland tobacco farmers in their efforts to maintain financial viability and place tobacco production and marketing in a competitive posture. There are also policy considerations, particularly with respect to future tax actions, that the State must resolve. There are five major areas of interest and action in this respect: (1) land preservation; (2) crop insurance; (3) research; (4) tobacco grading; and (5) tobacco taxes.

First, the State of Maryland designed a land preservation program to encourage the set-aside of land in agricultural production. This program provides for the purchase of development rights from approved districts to maintain significant portions of prime agricultural land for future production. The program is administered through County committees and a State board, with funding from both the State and Counties. There has been limited participation in this program by Southern Maryland farmers for a variety of reasons, including:

(a) a diminished incentive (historically) to participate due to the relatively small differential between the value of development rights and that of maintaining the land in agricultural production;

(b) conversely, the inclination of some farmers to speculate as to the value of their land for possible development;

(c) the smaller size of farms in the region (i.e., the program requires units of 100 acres or more for land preservation designation);

(d) the lower value of land in Southern Maryland for agricultural production relative to other farming regions of the State; and

(e) uncertainty as to the level of funding commitments for necessary cost-sharing on the part of county administrations/abilities.

Despite these factors, the land preservation program may provide a partial solution in selected areas to help the region continue its proud heritage in agricultural production and support for existing farms.

Second, over the past several years the U.S. Department of Agriculture has reviewed its commitment to provide crop insurance protection to farmers against losses on their crops (and livestock) caused by weather and natural disasters. Insurance premiums and coverage are calculated using an "average production" basis for each farm, and incorporate acreage, rainfall, soil types, and temperature considerations. There are guidelines for specific crops that determine levels of coverage and premium rates. The program is administered through USDA regional offices and field supervisors. Insurance policies can be purchased through local independent insurance agents.

Participation in the Crop Insurance Program (CIP) has been varied. Producers of certain crops in particular geographic areas of the country have utilized this program extensively; Maryland tobacco farmers have not: only one (1) percent participated in this program for their 1983 crop. It is anticipated that two factors will alter this situation in the future: (a) an increasing number of financial institutions that provide loans to farmers will require them to purchase crop insurance, and (b) CIP administrators are reviewing the tobacco insurance policies and are considering insurance coverage revisions more applicable to producers of Maryland (Type 32) tobacco.

Third, research personnel at facilities within the State and the tobacco industry have been working to improve tobacco varieties and production techniques. These efforts to produce a higher quality tobacco more efficiently will continue. Increasing our State efforts in the area of market development should stimulate these activities, and enhance the reputation of Maryland tobacco as a unique, quality product.

Fourth, a grading service by the U.S. Department of Agriculture is provided (upon request) for tobacco sold in specified marketing areas within the United States. Only Maryland is the recognized area for Type 32 tobacco. The tobacco grading program is designed to provide a uniform product for the buyer at the marketplace, as well as provide the farmer with an indicator to judge the fair market value of his crop. The service is funded by the farmer at the time of sale.

Maryland tobacco farmers participated in this program for several years, but discontinued their involvement several years ago when many observed that buyers often disregarded the USDA grades and used their own company grading standards. The Maryland Tobacco Authority reconsidered USDA grading at their November 15, 1984, meeting and rejected participation in the program.

Fifth, the imposition of additional taxes on cigarettes has an adverse effect on the use of tobacco and can lead to a decreased demand for Maryland tobacco. There is a possibility that the Federal Government may reduce its tax on cigarettes. Should the State increase its tax (by the extent of the Federal reduction), "bootlegging" in the purchase of cigarettes from the District of Columbia and Virginia would probably increase. The net tax revenue impact would, therefore, be very small.

APPENDIX

THE ORDERLY MARKETING OF MARYLAND TOBACCO:

Suggestions/Correspondence by an Industry Representative

GIESKE & NIEMANN

INCORPORATED

Leaf Tobacco

P. O. BOX 347
55 GWYNNS MILL COURT
OWINGS MILLS, MARYLAND 21117

BALTIMORE, MARYLAND

ESTABLISHED 1858

17 December 1984

CABLE ADDRESS:
GIESKE (BALTIMORE)
TELEX: 710-862-9174

TELEPHONES:
BALTIMORE: 301-363-1188
MARLBORO: 301-627-3697

P. O. BOX 128
UPPER MARLBORO
MARYLAND, 20772

PLEASE REPLY TO: Owings Mills

Senator Bernie Fowler
P. O. Box 288
Prince Frederick, MD 20678-0288

Dear Senator Fowler,

Sometime in the middle of November, the enclosed clipping appeared in the Baltimore Sun regarding "mixed credit" and "concessionary loans".

Although both techniques are admittedly stop-gap actions, it would appear to me that Maryland tobacco should be a prime candidate.

Not only does the export of Maryland suffer from the current high dollar, but more importantly suffers severely from the actions of the Common Market practice of discounting (frequently in the neighborhood of 20%) tobaccos produced within the common market.

As you know, "Maryland" is produced in both Italy and France, not to mention other air-cured types which may be used as Maryland substitutes. While these tobaccos are intrinsically cheaper and of lesser quality than our own Maryland, it is obvious that economics will determine the relative percentages of each type used by a manufacturer.

In short, it would appear to me that US Maryland is being discriminated against just as obviously as the articles mentioned in the clipping. The major difference is that, in the case of the commodities mentioned in the clipping, they are "go-no-go" cases whereas our tobacco is suffering from decreased orders rather from a totally missed sale. One is as unfair as the other.

I have been contacted by one of our Swiss customers who has expressed a willingness to cooperate in supplying us with documentation to verify the current conditions.

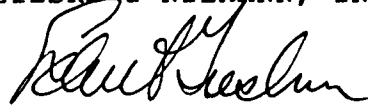
OVER 125 YEARS IN MARYLAND TOBACCO

Certainly, any assistance which might make Maryland tobacco once again competitive, would go a long way to improving the economic fate of the entire Southern Maryland community.

Please feel free to contact me with your thoughts on this subject and rest assured that I stand ready to assist in anyway that I can.

Sincerely,

GIESKE & NIEMANN, INC.

A handwritten signature in dark ink, appearing to read "Edward T. Gieske, Jr.", written in a cursive style.

Edward T. Gieske, Jr.
President

ETGJR:vsm

Encl.

U.S. uses foreign aid to subsidize exports

New York Times News Service

NEW YORK — In what Washington describes as an attempt to counter countries that unabashedly subsidize their exports, the United States is using funds intended for foreign aid to reduce the price of American exports.

About a month ago, the United States allocated \$4.2 million — which was to have helped the southern African country of Botswana buy commodities — to reduce the interest rate Botswana would pay on a loan if it buys locomotives from the General Electric Company or the General Motors Corporation. If Botswana signs the contract for the locomotives, it will get the \$4.2 million, which it can apply to the financing costs.

This is the first mixed credit — so-called because foreign aid is mixed into a loan — the United States has offered, aside from an experimental program with Egypt.

The deal, and the prospect that others may be forthcoming, is ex-

pected to be a significant factor in multilateral negotiations on mixed credits that will begin next month in Paris.

The use of development, or humanitarian, aid to promote exports is as controversial as it is complex. "Taking money out of the mouths of babes" is what William H. Draper III, president and chairman of the Export-Import Bank, calls it when other countries do it. But he says the United States is different, because it only matches other bids and is trying to restrict such credits by international agreement.

In addition to the mixed credit, the United States this year has offered half a dozen concessionary loans to help American exporters compete with mixed credits offered by other countries.

Although the effect is similar, a mixed credit taps aid funds from the Agency for International Development, while a concessionary loan uses the funds only of the Export-

See EXPORTS, 8A, Col. 6

U.S. foreign aid may be sent as export subsidy

EXPORTS, from 1A

Import Bank. This agency, which is not tax-supported, offers loans and guarantees to help American exporters.

The Export-Import Bank announced one such concessionary loan earlier this month. It would help TIW Systems, Inc., of Sunnyvale, Calif., compete with a French company in bidding to supply a satellite communications station for Cyprus. The French company has offered financing backed by mixed credit from the French government.

"There is no question that the French use of foreign aid funds to subsidize a commercial export in the highly competitive telecommunications sector is a gross distortion of both trade and aid," Mr. Draper said when he announced a concessionary loan for TIW Systems.

Mr. Draper and other administration officials stress that the United States only uses such devices to match the competition. In the case of Botswana, for example, Canada had offered aid money to sweeten the bid of its exporter of locomotives.

Development aid often is spent on equipment such as tractors or rolling stock, and it is not uncommon for the donor country to tie the aid to purchases of equipment made by its industry.

Mr. Draper said the United States remained opposed to mixed credits, however, because they divert scarce development aid and use it for the commercial purpose of stimulating exports.

"Mixed credits take a lot of money out of the aid buckets set aside for development purposes in poor countries," he said. "I'm against them because they're taking money out of the mouths of babes, so to speak."

By offering mixed credits, the administration hopes to demonstrate to Europe — and especially the French — that it is in everyone's interest to negotiate restrictions on mixed credits.

Since the late 1970s these credits have expanded rapidly. A few years ago only a handful of countries offered such loans.

Although the Reagan administration, with its laissez faire orientation, has been reluctant to grant mixed credits, exporters and Congress have been less reticent.

A survey by the Coalition for Employment Through Exports, in Washington, found that 20 of its member companies passed up projects worth a total of \$7 billion because they believed export financing was unavailable or uncompetitive.

Maryland Tobacco Improvement Foundation, Inc.

MORE AND BETTER TOBACCO PER ACRE

R.F.D. BOX 2730

UPPER MARLBORO, MD.

17 December 1984

Senator Bernie Fowler
P. O. Box 288
Prince Frederick, MD 20678-0288

Dear Senator Fowler,

Enclosed please find a copy of my proposal to aid in the orderly marketing of Maryland tobacco, together with some of the supporting correspondence.

It is my hope that the Southern Maryland Agriculture Committee will concur with the aims and goals of the plan and will be able to provide the necessary impetus to convert ideas into reality.

Although actions taken by the Authority during the last marketing season have helped in certain areas, I still feel that a comprehensive plan is needed both to bring order and to define clearly, for all concerned, the rules of the market which will have to be enforced by the Authority.

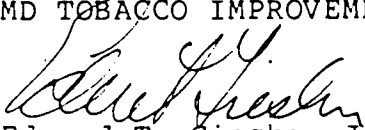
The plan is not perfect and not without extra duties and responsibilities, but the rewards far outweigh the negative aspects.

I am available to lend support or assistance at anytime. Please do not hesitate to call upon me.

With best regards, I remain,

Sincerely,

MD TOBACCO IMPROVEMENT FOUND.


Edward T. Gieske, Jr.
President

ETGJR:vsm

Encl.

GIESKE & NIEMANN, INC.
P.O. Box 347
Owings Mills, MD 21117

7 July 1983

Mr. Mark Reger
Maryland Department of Agriculture
50 Harry S. Truman Pkwy.
Annapolis, MD 21401

Dear Mark,

As mentioned in our recent phone conversation, I think that I have found a plausible solution to the control of the sale of out-of-state tobacco sold at the Maryland tobacco auctions in southern Maryland. I propose the following system, which is somewhat similar to a portion of the Federal Government managed Acreage/Poundage control system used in price supported growing areas. It also addresses two additional serious problems: fraudulent packing or "nesting" and the distribution of free Maryland tobacco seed which ultimately is cultivated outside of the State.

Recognizing, that there are already laws and/or rules governing the sale of tobacco in the state of Maryland as directed by the Maryland State Tobacco Authority which requires that tobacco produced outside of the state of Maryland and which is offered for sale within the state of Maryland be identified by a pink "basket ticket" which accompanies each basket or unit of sale; and,

Recognizing, that a sizeable quantity of out-of-state tobacco (estimated by various industry sources between one and three million pounds) was sold at auction during the 1983 selling season, none of which, to my knowledge, was indicated by a pink basket ticket; and,

Recognizing, that such laws and/or rules are not being enforced and/or are not enforceable; and,

Recognizing, that fraudulent packing of baskets or "nesting" is a punishable offense in the State of Maryland; and that, the practice has become quite wide spread (Gieske & Niemann returned in excess of 12,000 Lbs. of nested tobacco during the last season); and that, it has been years, to the best of my knowledge, since a charge of nesting has been brought against any producer or packer of Maryland tobacco offered at auction sale; and,

Recognizing, that the Maryland Tobacco Improvement Foundation funds a free tobacco seed program for Maryland farmers; and that, the members of the Maryland Tobacco Improvement Foundation, Inc. are seriously concerned about the unidentified sale of out-of-state tobaccos; and that, there is currently virtually no means of controlling or regulating the ultimate use of this free seed; and that, the Foundation is desirous of establishing a means of restricting distribution to that which will be planted in Maryland.

I therefore propose, that the proper authorities be directed to authorize, enact laws and rules as necessary, and direct the enforcement of the following scheme to aid in the resolution of all of the above serious problems confronting the Maryland tobacco industry:

That, the State of Maryland, prior to the opening of the Maryland tobacco auction season and upon receipt by the State, of an appropriately completed application, issue a credit card type plastic card to be known as the "Maryland State Tobacco Marketing Card" (MSTMC) to every producer of Maryland grown Maryland tobacco, every warehouse firm, every buying firm and every person or firm wishing to sell Maryland grown Maryland tobacco at the Maryland auctions; and,

That, the application should completely identify the applicant and provide a ready means of contacting the applicant; and,

That, the application may request/require such additional historical information and estimates of impending sales as is deemed necessary to establish norms which could be used statistically to alert the proper authorities of abnormal or unusual changes in anticipated volumes or differences in anticipated sales as compared to the volume actually sold by any given producer; and,

That, the application include an attested statement that the applicant will not sell out-of-state tobacco that is not appropriately marked by the required pink ticket; and,

That, two distinctly different MSTMC cards be issued to producers and resellers of Maryland tobacco; each displaying the name of the applicant, the year of the valid marketing season and a unique "Marketing Number" issued by the State of Maryland and with this information placed in distinctly different parts of the card for the two different types of sellers; and,

That, three different forms of "basket tickets" be required: white for producers of Maryland grown Maryland tobacco, yellow for resellers and pink for out-of-state producers. The organization of the "seller information" portion of the basket ticket should be different for each type and be coordinated with the information embossed upon the MSTMC card. This process will make it visibly evident if the wrong ticket is used for a given type of seller. The basket tickets should be required to be of a size and shape to conveniently fit existing and available im-

printing mechanisms; and,

That, the State of Maryland prepare and distribute, prior to the opening of the selling season, to all warehouses, buyers and others with a need to know, a list of names, addresses and phone numbers, by Marketing Number, of all cards issued. This information will reduce the record keeping requirements of the warehouses and more importantly aid in the tracking and prosecution of tobaccos found to be nested; and,

That, all warehouses be required to procure Visa-type embossing or imprinting mechanisms; and,

That, all warehouses be required to use out-of-state pink basket tickets unless the seller presents a valid MSTSC; and,

That, all warehouses, when presented with a valid MSTSC, imprint the information contained thereon on every applicable "floor sheet" and basket ticket representing the tobacco to be sold by the card holder and that the appropriate white or yellow basket ticket be used; and,

That, all warehouses be required to submit to the appropriate State authority a annual summary of pounds sold by each MSTMC Marketing Number and the number of pounds of out-of-state sold. The total pounds reported should equal the total sales figures which are already required to be submitted; and,

That, such data as has been collected be made available to such persons, firms or organizations within the state of Maryland as may have a "need to know" in the accomplishment of the above objectives; and,

That, such data as has been collected and that may be pertinent to the control of distribution of free tobacco seed by the Maryland Tobacco Improvement Foundation, Inc., be made available to the Maryland Tobacco Improvement Foundation, Inc., and that, such data that the Maryland Tobacco Improvement Foundation, Inc. may collect in the process of the distribution of seed be made available to the State of Maryland.

When you have had a chance to digest the above, I would greatly appreciate receiving your thoughts and comments on the proposition and the possibility of arranging meetings or conferences with the appropriate persons to effect the suggested changes in time for implementation before the 1984 marketing season.

With best wishes, I remain,

Sincerely,

GIESKE & NIEMANN, INC.

Edward T. Gieske, Jr.
President

Case 10
Tobacco Problem



Harry Hughes
Governor
Joseph Curran, Jr.
Lt. Governor

Wayne A. Cawley, Jr.
Secretary
Hugh E. Binks
Deputy Secretary

STATE OF MARYLAND
DEPARTMENT OF AGRICULTURE

July 20, 1983

Mr. Edward T. Gieske, Jr., President
Gieske & Niemann, Incorporated
P.O. Box 347
55 Gwynns Mill Court
Owings Mills, Maryland 21117

Dear Mr. Gieske:

Thank you for your letter of July 7, 1983, regarding your suggested solution to the control of the sale of out-of-State tobacco in the Maryland tobacco auctions.

I have circulated your letter to members of my staff and the State Tobacco Authority for their review and recommendations and will forward you a detailed response to your letter in the near future.

Thank you for taking the time to forward your recommendations and please feel free to contact me or Ernest Shea if you have additional information for us to consider.

Sincerely,

Wayne A. Cawley, Jr.
Secretary

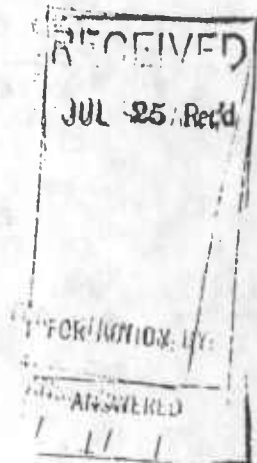
WAC:dk

cc: Ernest C. Shea

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S-

TELEPHONE NUMBER (301) 841-5880
50 HARRY S. TRUMAN PARKWAY, ANNAPOLIS, MARYLAND 21401





LOUIS L. GOLDSTEIN
COMPTROLLER OF THE TREASURY
STATE TREASURY BUILDING
P. O. BOX 466
ANNAPOLIS, MARYLAND 21404
269-3801

August 8, 1983

Honorable Edward T. Gieske, Jr.
President
Gieske & Niemann, Inc.
Post Office Box 347
55 Gwynns Mill Court
Owings Mills, Maryland 21117

RECEIVED
AUG 11 Rec'd
FOR ACTION BY:
ANSWERED

Dear Mr. Gieske:

I wish to acknowledge receipt of your cordial letter of July 29, 1983, received in my Annapolis Office on August 1, 1983, together with the enclosures, namely, a draft letter directed to the Maryland Department of Agriculture, Tobacco Division, and a letter addressed to Mr. Mark Reger, Maryland Department of Agriculture, dated July 7, 1983, together with recommendations concerning the sale of out-of-state tobacco being sold at the Maryland Tobacco Auctions in Southern Maryland.

I feel your recommendations are sound and they should be discussed at once with the Maryland Department of Agriculture and the Maryland Tobacco Authority which is under their jurisdiction, and I will be glad to assist you with this project.

Maryland has been raising tobacco since 1635 and we want to assure all prospective buyers that they are getting a quality product and not materials placed in the baskets known as "nesting", etc.

With kindest personal regards and best wishes for your continued success, good health, and happiness, I am

Most cordially yours,


Louis L. Goldstein

LLG:bda
File: 1A
1C



STATE OF MARYLAND
DEPARTMENT OF AGRICULTURE
STATE TOBACCO AUTHORITY

HARRY HUGHES
GOVERNOR

WAYNE A. CAWLEY, JR.
SECRETARY

HUGH E. BINKS
DEPUTY SECRETARY ✓

STATE TOBACCO AUTHORITY

John A. Prouty
CHAIRMAN

JOHN A. SCHILLINGER
EXECUTIVE SECRETARY

November 15, 1983

Enix Shag - Del. Schillinger
841-5789

Mr. Edward T. Gieske, Jr.
President
Gieske & Niemann, Inc.
P.O. Box 347
55 Gwynns Mill Court
Owings Mills, Maryland 21117

Dear Skip:

Your letter regarding the serious problem of the sale of out-of-state tobacco on our market has been received and we appreciate your interest. Your suggestions have been studied by the Authority and a copy of the report of the committee that was appointed to study your proposal is enclosed herewith.

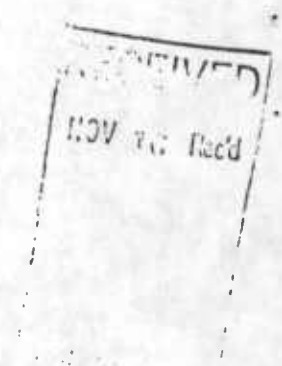
We have developed various action plans to be made effective during the 1984 market. In the event these plans do not correct the problem, we will again be establishing additional plans and your suggestions will again be considered.

Sincerely,

John A. Schillinger
John A. Schillinger
Executive Secretary

JAS:csb

Enc.(1)



MEMORANDUM

Oct. 13, 1983

To: John Prouty, Chairman
State Tobacco Authority

From: C. Beall R. Denny
J. Bowling J. Hoyert

Re: Proposed "Maryland State Tobacco Marketing Card".

This is a report from the committee you appointed to study Mr. Edward T. Gieske's recent proposal for a tobacco marketing card system. The members of the committee reached a general consensus on the features of the marketing card plan but were not always unanimous in opinions. Further study may be needed in the future, however, the following points concerning the Gieske proposal as covered by the committee should be emphasized:

1- Gieske's statements on the need for action to correct marketing problems is on target and his proposal is timely as there has been a deterioration in the reputation of the Maryland tobacco markets. To some extent we became the dumping ground for some unwanted Pa. and N.C. tobacco and "nesting" by a few growers has, unfortunately, been on the increase. Furthermore, Pennsylvania is reported as planting an estimated 4000 acres of "Maryland" in 1983 and indications are that this acreage will probably be increased in coming years. On the other hand, "Maryland" tobacco from the flue-cured area has been effectively killed by legislation.

2- Mr. Gieske has obviously spent considerable time and effort on this proposal which is well-conceived and thorough. This system, if executed correctly, will definitely improve the out-of-state and the "nesting" troubles on our markets. Undoubtedly a few market-wise persons will still be able to beat this system but there shouldn't be very many. Another plus is that the marketing card plan also might be expected to give better control of certain other marketing problems.

3- More importantly the ultimate result of the proposal should be an improved image of the Maryland markets among prospective buyers and our own growers.

4- Implementation of this system will require that the Tobacco Authority hire extra parttime personnel to handle the new work load successfully. There will also be some expense in obtaining plastic cards, printing application forms and basket tickets, and buying imprinting machines, etc. The only source to cover these budget additions would have to be increased

taxes. These financial increases probably will be a lot less after the first one or two year's experience with the system. Warehousemen will also have additional bookkeeping and other expenses in order to keep up their end of the plan.

5- There would be major public relations problems with our growers resulting from the marketing card scheme. In addition to the stigma of raised taxes, growers would wrongly compare the system to the U.S.D.A. allotment and quota system and charge the Tobacco Authority with meddling, excessive red tape, "governmental-type" interference, etc. There would be a slow end to this potential controversy.

6- It would be very difficult, if not impossible, to implement this proposal by the 1984 market season. If it is necessary to go through the State Legislature in order to get authority to activate the plan, then 1984 is definitely out. Educational efforts and application forms most likely should be available in the July preceding the opening date of the targeted market. This early start is needed to be effective in getting word to the growers and reducing last minute applications which will necessitate extra help and greater expense. The wording on the applications must be careful and cleared through all parties involved which will take a great deal of time.

7- There will be some growers, who either won't get the message or are deliberately uncooperative, arriving at the warehouse with a load of tobacco and no card. Means must be provided to process these farmers promptly so as not to jam the loading docks. This problem should work itself out after the first year.

8- There will have to be some adjustments in the marketing card system as proposed. Can the three basket tickets be reduced to one or two at the most in order to simplify and reduce the bookkeeping load the first year? Then, if problems persist, a multi-ticket plan could be started. The list of names and addresses of growers is necessary but should be private rather than circulated. This would be a touchy issue with many farmers. Warehouses will not want a special (discriminatory?) ticket on tobacco for resale. Specific penalties must be stated for violations of each rule and all parties clearly informed. There will certainly be other changes needed as the system is studied and further developed.

9- Current rules and regulations of the Tobacco Authority will solve many of the market problems pointed out by Mr. Gieske if enforced with greater thoroughness and in a more business-like manner. More effort should be exerted by the Authority toward the improvement in effectiveness of our present enforcement procedures.

-01-

GIESKE & NIEMANN

INCORPORATED

Leaf Tobacco

BALTIMORE, MARYLAND

ESTABLISHED 1838

25 November 1983

P. O. BOX 347
55 GWYNNS MILL COURT
OWINGS MILLS, MARYLAND 21117

P. O. BOX 128
UPPER MARLBORO
MARYLAND, 20772

CABLE ADDRESS:
GIESKE (BALTIMORE)
TELEX: 710-862-9174

TELEPHONES:
BALTIMORE: 301-363-1168
MARLBORO: 301-627-3697

PLEASE REPLY TO: Owings Mills

Mr. Ernest Shea
Maryland Dept. of Agriculture
50 Harry S. Truman Parkway
Annapolis, MD 21401

Dear Mr. Shea,

By this time I am sure that you have received your copy of the memorandum of the committee of the Maryland Tobacco Authority which has been studying my proposals regarding the marketing system here in Maryland (a copy of which was kindly forwarded to me).

In reviewing the memorandum, I noted two points: that I am not fully conversant with the constraints placed by any government body and some apparent points which must not have been clear in my recommendations. Therefore, I would like to step through the memorandum, by paragraph, looking at these points.

1. Pennsylvania tobacco is both a problem and an opportunity. The opportunity is that it presents the potential of new and additional income to our Maryland warehousemen. The problem is to insure that it is properly identified at all times. Although I cannot speak for the entire industry, I personally have no objection to the sale of Pennsylvania or any other tobacco so long as it is identified as such whenever it is sold, and that includes resales. The possibilities of error and confusion, not to mention the impracticability of controlling resales mandate the Third Color Ticket, which only says that the offering may or may not be Maryland. If, for instance, a warehouse "buys in" some Pennsylvania tobacco and stacks it back until floor space becomes available, is it reasonable or practical to expect the warehouse to remember its origin and burden them with the responsibility of properly identifying the tobacco at the time of resale? The same holds true for a buyer who subsequently resells the tobacco.

OVER 125 YEARS IN MARYLAND TOBACCO

3. The importance of "image of the Maryland markets" amongst overseas buyers cannot be emphasized enough. There currently is considerable concern in that area as these buyers must be assured of a continuing supply of true Maryland if our overseas market is to continue.

4. A. From The Authority's point of view, no additional personnel should be required. Although some additional work will be involved, that effort would normally fall at slack times other than the marketing season. During the season, the only work necessary should be spot checks of the warehouses by personnel already employed and in the buildings.

4. B. Regarding the expenses, the only major items are basket tickets and the imprinting machines. Basket tickets have always been the responsibility of the warehouse. They would, however, incur some additional expense as three colors of tickets would be required. The cost of the imprinting machines might also be borne by the warehouses as it will be they who will gain in the speed and accuracy of getting the information on the tickets, not to mention that it is a one time expense. This should become immediately advantageous in that it is my understanding that, starting with the next season, warehouses will be required to display the full name of the seller on each ticket.

4. C. Unless I have missed something, there should be no additional bookkeeping responsibilities placed upon the warehouses. If anything, it should simplify and clarify their records. If there is additional effort, it will be concerned with action following the returns of nests, which The Authority is planning to require - with or without my proposed scheme.

5. From the farmers point of view, there are but two purposes of the entire scheme - to give his Maryland grown Maryland the prominence that it rightly deserves and to insure that the name of Maryland (and his personal crop) is not polluted by the presence of nests. The inconvenience of having to secure a card is a minor inconvenience compared to potential lack of sales or lowered prices by those requiring true Maryland because of the lack of assurances that that is what it is. To put it another way, the system is there to protect and aid the Maryland farmer at minimum inconvenience.

6. I agree that, at this late date, it would be difficult to have more than a volunteer test project for the coming season, but I feel that the technical problems have been overrated.

7. The come lately's certainly can be accommodated during the first year by signing them up on the spot, and with hand written tickets. The problem seems to be of minor importance.

8. A. The group seems to have missed the entire point. Without three tickets, the entire plan falls apart. Single tickets may help the nest problem, but does nothing to guarantee the purchaser of true Maryland. I thought that this was obvious.

8. B. On the dissemination of the lists of names, I goofed! Certainly only those with a real need to know should have the lists.

8. C. Most of the penalties are already stated. Such new possible infringements as may exist, generally revolve around the physically small number of warehousemen and buyers, thus making it easy to keep them informed.

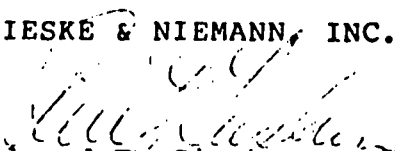
9. Herein lies the key! Yes the rules do exist, in the most part, but the lack of mechanics and other factors have made them unenforceable. Even with increased diligence, enforcement will be difficult. As an after thought, how many farmers are aware of all of the current rules and regulations, as they currently stand and what effort has been made to keep them informed to date?

Lastly, I hope that this letter will help to clarify the problems. If any questions still remain unresolved or unclear, please do not hesitate to give me a call.

With best wishes, I remain,

Sincerely,

GIESKE & NIEMANN, INC.


Edward T. Gieske, Jr.
President

ETGJR:vsm



Harry Hughes
Governor
Joseph Curran, Jr.
Lt. Governor

Wayne A. Cawley, Jr.
Secretary
Hugh E. Binks
Deputy Secretary

STATE OF MARYLAND
DEPARTMENT OF AGRICULTURE
DIVISION OF AGRICULTURAL DEVELOPMENT AND MARKETING

November 29, 1983

Mr. Edward T. Gieske, Jr., President
Gieske & Niemann
P.O. Box 347
55 Gwynns Mill Court
Owings Mills, Maryland 21117

Dear Mr. Gieske:

I appreciate your taking the time to clarify points regarding your market card system proposal for the Maryland tobacco markets. There is no doubt in my mind that a method of determining Maryland grown Maryland tobacco is badly needed. As you saw from the recommendations of the Tobacco Authority, the study committee charged with the responsibility of reviewing your proposal has decided, at this point, not to take immediate action. I am aware that Brad Powers, Assistant Chief of Marketing, has discussed some of your proposals with you and he informs me that he plans to continue exploring methods which will enhance the marketing of Maryland tobacco.

Feel free to keep in touch with my office as we continue to attempt to resolve the various problems of the tobacco industry in Maryland.

Again, thank you for your input.

Sincerely,

Ernest C. Shea
Director

ECS:ijb

84

TELEPHONE NUMBER (301) 841- 5770
50 HARRY S. TRUMAN PARKWAY, ANNAPOLIS, MARYLAND 21401



RINSOZ & ORMOND S.A.

Manufactures de tabacs, cigares et cigarettes

TELEPHONE (021) 51 03 32 - CHEQUES POSTAUX 18-100 - TELEX 24 722

TELEGRAMMES : RINSORMOND, VEVEY

AIR MAIL

STATE OF MARYLAND
Maryland Department of Agriculture
Tobacco Division
50 Harry S. Truman Parkway
ANNAPOLIS, MD 21 401 - USA

Leaf Tobacco Dept.
AH/eg

CH-1800 VEVEY,
RUE DU COLLEGE 1

4th August 1983

Gentlemen,

Your office has recently received a letter from Gieske & Niemann Inc., outlining a plan of action to aid in the control of the sale of out-of-state tobacco sales.

Our firm is a manufacturer of Maryland smoking products and as such we require Maryland grown leaf and for use in our products. The uncontrolled and unidentified sale of out-of-state tobacco on the Maryland markets not only makes it difficult for us to procure the true Maryland taste that we need, but also makes it difficult for us to support the Maryland farmers who have given us the quality we need over the years.

We are also seriously concerned with the amount of "nested" tobacco that we find in our purchases and the apparent inability of the authorities to stop this illegal practice.

To that end, we wish to lend whatever support we can to the plan submitted by Messrs. Gieske & Niemann, in hopes that action can be taken in time to effect the sales of the 1983 crop.

With best regards, we remain,

Yours faithfully,
RINSOZ & ORMOND S.A.



AN EXTRACT

July 14, 1983
F. J. Burrus et Cie
Boncourt, Switzerland

Mr. E. T. Gieske, Jr., President
Maryland Tobacco Improvement Foundation
P. O. Box 347
Owings Mills, MD USA 21117

Curiously enough no one on this side of the Atlantic fusses about out-of-state tobacco. This can only be explained by the confidence put in the respective buyers to spot and avoid practically all such tobacco.

Nevertheless, I do appreciate your initiative and compliment you on the astute scheme incorporating modern means and providing us with the opportunity to achieve directly or indirectly several things, all well in line with the wishes of the European manufacturers, as expressed in the aforementioned letter.

According to the latter, our Executive Committee is not only charged with the study, but outright mandated to take action and I, for one, like to thank you for all thought and time devoted to your scheme that I endorse wholeheartedly, standing ready (upon request) to do so also officially for FJB in writing to Secretary W. A. Cawley, Jr. In the light of performance shown by previously created state bodies, laws and rules applying to tobacco, I am not afraid of "the sweeping effect such a plan could have." The State Tobacco Authority does need a new set of teeth!

Tony Eberle,
Executive Committee of MTIF

AN EXTRACT

July 14, 1983
F. J. Burrus et Cie
Boncourt, Switzerland

Mr. E. T. Gieske, Jr., President
Maryland Tobacco Improvement Foundation
P. O. Box 347
Owings Mills, MD USA 21117

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Executive Committee of MTIF